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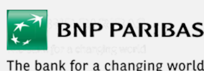

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"At this year's Climate Bonds Conference21, as usual we had a wide range of pivotal discussions on the latest in transition, sustainable and climate finance. To help us reflect on the discussions, we connected with a number of academics from a range of backgrounds to provide summaries and elaborations on our panel discussions. In this document you can find a selection of summaries in the order on which they occurred during the conference."

Aneil Tripathy
Academic Research Consultant, Climate Bonds Initiative

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TUESDAY 7 SEPTEMBER – MARKETS DAY
Beyond the Trillion Dollar Challenge: The Fast-Evolving Global Sustainable Debt Market

PANEL

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Author: Tiziano Bussani - PhD Student in International Law, University of Milan, Fondazione Fratelli Confalonieri

The Green, Social and Sustainability (GSS) Bond market experienced stellar growth in 2020, now standing at more than $2 trillion dollars. As the world embarks on a green recovery from the pandemic, what are the key drivers and trends to watch? How do we rise to the challenge of financing sustainable and climate-resilient economies, and what roles do different stakeholders and financial instruments play? In this session we are joined by a stellar panel representing the viewpoints of issuers, investors, underwriters and rating agencies to discuss the transformation that is underway - and what comes next.

A common sentiment: optimism. All the panellists shared optimism about the future of the sustainable debt market. Indeed, while it took 12 years for green bonds to reach the milestone of $ 1 trillion of global cumulative issuance, it took just one more year for the whole sustainable debt market to double this target. This means that the growth of the market is going exponential.

In particular, two trends marked this shift. First, the mainstream of sustainable finance. Issuers and investors both seem to think that it is not a matter of integrating the ESG in their decision-making process anymore, but how to do so efficiently. According to the issuers, the challenge is to elaborate credible and competitive sustainability strategies[1], which are increasingly considered by second opinion providers and investors. According to the investors, the challenge concerns the comparability of the green and/or social credentials among different sustainable instruments worldwide.

[1] *While talking about social bonds, it became apparent that the higher costs related to the issuance of those bonds are no longer a concern for companies which recognize that acting now will lower the cost of financing in the future and not acting will eventually cause penalties. However, the creation of sustainability strategies to credibly accessing the market is still an issue for many players.*

The second trend concerns the various states' policy initiatives on climate and sustainability, which are supporting the sound growth of the market. Indeed, on the one hand, more and more states are increasingly engaging in concrete climate actions, which often encompass sustainable finance as a key driver; on the other hand, international cooperation on sustainable finance is growing fast, as the case of the Common Ground Taxonomy clearly shows. The increase of sovereign sustainable debt issuances following the pandemic is another relevant data, but more engagement is required and expected.

Two main obstacles. Two main hindrances, however, arise against this backdrop. First, the fragmentation of definitions could jeopardize the development of a real global sustainable debt market, and, as a direct consequence, the global dimension of the transition to a more sustainable and climate-resilient economy. Secondly, the lack of data still represents a huge obstacle for a transparent, efficient, and competitive market, where investors can compare different products according to appropriate sustainability targets and indicators. In this regard, all the panellists believe that the standardization of sustainable finance taxonomies is crucial to avoid market fragmentation and foster the convergence of methodologies and data.

The 1st key driver: standardization. Standardization is driving the market. Since financial markets and the challenge of sustainable development are eminently global, standards on sustainable finance should be global too. In other words, there is the need to develop a universal common language for sustainable investments. This requires the convergence of definitions, processes, methodologies, and data across different jurisdictions. The first steps in this direction are the Eu-China work on the Common Ground Taxonomy and the global ambition of the European GBS.

Appropriate taxonomies, therefore, come across to be fundamental for the growth of sustainable finance. Moreover, highly granular definitions, metrics, and indicators will surely increase the market's efficiency and effectiveness. For this reason, some sovereigns are developing specific taxonomies. Nonetheless, if every state adopts its own taxonomies and frameworks, the whole market will lose consistency, coherence, and integrity. To address this challenge, there are two main options. The first is to couple domestic taxonomies with high disclosure requirements for the issuers. In such a case, while diverse taxonomy regulations would cause market fragmentation, global investors would still be able to compare all products across different jurisdictions, if data transparency and clarity is ensured. This would favour the standardization of the assessment methodologies among all market participants by cross-referencing different taxonomies with consistent and comparable data. The other option is for leading states to partake in a standardization process to elaborate common definitions and taxonomies. Clearly, the response of market participants from other jurisdictions is fundamental for the effective global adoption of such standards. In any case, the role of private regulators, such as the CBI or the ICMA, has been and will be crucial in promoting the standardization of definitions, processes, methodologies, and data.

The 2nd key driver: innovation. Continuous innovation is required at the product level to drive the growth of the market. In particular, the panellists identified the Sustainability-Linked Bonds and the Transition Bonds as the main instruments for further waves of innovation. Clearly, the definition, standardization, and measure of KPIs and transition strategies are significant obstacles for the development of these markets; however, the flexibility of such instruments will allow new solutions to problems that GSS bonds cannot address as of today. This refers, for instance, to those companies that cannot issue proper green or social bonds but are seriously committed to making their businesses more sustainable. Another use case might be the issuance of SLBs by public entities, to protect natural resources and ecosystems or reduce carbon emissions at the system level.

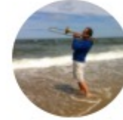
The 3rd key driver: ambition. Issuers, both sovereigns and privates, should be more ambitious. States should have a 360° guide role regarding sustainable debt investing, encompassing: 1) the issuance of GSS bonds; 2) the development of GSS frameworks consistent with the existing standard; 3) experimentation and innovation with debt instruments; 4) the development of taxonomies and regulations aligned with, or converging towards, common definitions and standards; 5) international cooperation and coordination; 6) education of market participants and investors. Moreover, private companies should demonstrate more ambition in designing broad sustainability frameworks to meet the investors' demand for concrete actions regarding sustainable development.

Outlook. Optimism is supported by a clear identification of the obstacles as well as the drivers and goals for the further growth of the market. Success will depend on the convergence of the efforts from all actors involved. While states play a major role in the future of sustainable finance, standardization, innovation, and ambition involve all market participants in a challenge that is eminently global and cannot be addressed by public regulators alone.

TUESDAY 7 SEPTEMBER – MARKETS DAY
Transparency and Reporting in the Green Bond Market

PANEL

Sean Kidney
CEO
Climate Bonds Initiative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Head Responsible Investment
PGGM

Doris Kramer
Vice President
KfW

Luca De Lorenzo
Head of Sustainability and Mandate
Nordic Investment Bank

Maria Netto
Principal Capital Markets Specialist
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Author: Paraic McGee - PhD Candidate, Waterford Institute of Technology

Post-issuance disclosure provides transparency, ensures accountability, and underpins the credibility of green bonds and loans. As the market has grown, interest in disclosure around use of proceeds and impact has grown with a view to better inform investor decision-making processes, analysis, and reporting. We will dive into the current state of play in post-issuance reporting practices, discuss implications, and map out what needs to happen next to achieve greater harmonisation, including the potential of the EU Green Bond Standard. Sean frames the debate by declaring the importance of reporting in the green bond market. “It underpins the market; without it, frankly, we wouldn’t have a market”.

Miguel provides evidence of the current practice of post-issuance reporting in the market with the findings of a recent CBI Report. The key results are that use-of-proceeds reporting is widespread by issuers, but the timeliness could be improved. However, there is considerable variation in the quality and consistency of post-issuance reporting, primarily due to a lack of standardisation. This lack of consistency is particularly problematic in the reporting of impacts. “Making assessments across securities and issuers very difficult”. Miguel argues that “impact reporting needs to be harmonised” and outlines two efforts to this end. First is the guidance on impact reporting from the Harmonised Framework on Impact Reporting and the Nordic Public Sector Issuers Paper. Market adoption of this guidance is small in scale, possibly due to a lack of knowledge. Second are the various platforms which standardise reporting in a common format, including the Green Bond Transparency Platform, the Green Asset Wallet and other initiatives.

So what does the future hold for reporting? Miguel contends that a common language for impacts through harmonisation is needed while also measuring ancillary impacts using absolute rather than just relative metrics. Issuer level impacts are also needed using a unified framework. Miguel is confident that "we can build an economy where we not only consider impacts but are driven by the creation of positive impacts". Miguel sees collaboration between market participants as the key to achieving this.

Timothée offers an investors perspective. "What makes our life easier is the emergence of a data repository that will offer comparable impact metrics that are made available at the same frequency using the same baseline methodology". Next comes the million-dollar reflection "to what extent are reporting and transparency critical drivers in order to make the green bond market foster decarbonisation?".

Doris offers an issuers perspective and agrees with Miguel that "metrics are not comparable at the moment" and "comparable absolute impacts are crucial". Doris contends that having external reviews for reporting is great, but informative reporting starts internally from issuer know-how. This is a learning curve, one which Doris admits KfW are still on, having recently worked on the organisation's overall impact. Doris's work at the GBPs is also focused on issuer versus instrument reporting.

Piet provides another investor perspective. PGGM has internal rules that focus on entity-level orientation towards outcomes that can be measured. However, this is "not easy and suffers from a lack of standardisation". PGGM need the ability to aggregate impacts as a communications tool. "We want to tell our beneficiaries that your pension delivered this, this and this and contributed to the SDGs and the Paris Agreement".

Maria provides the view that reporting is integral for the market itself to develop holistically, especially in emerging markets. "Emerging market reporting was really bad two years ago; less than half of issuers actually reported". This had led to "lots of confusion in the market". Maria contends that "we need to promote comparability". Maria is involved with The Green Bond Transparency Platform. This platform allows issuers to see how their peers report using different dimensions. However, the platform needs "a global focus to promote standardisation and show what the market is doing to achieve the Paris Agreement".

Luca offers an issuers perspective with ten years of experience with green issues. "Impact data drives our decision making, but before reporting, lots of internal work needs to be done". "You need to apply the methodology coherently and consistently to get the data right". The quality, reliability and flow of data need to work. "There are lots of metrics, lots of data points that need to be made digestible for the audience". "Very quickly it gets tricky, metrics multiply, and it gets difficult". Like Doris and KfW, Luca and the NIB have been on a reporting learning curve. "We have consolidated to one impact report; it's not perfect, but at least it's one". Luca offers some suggestions to legitimise reporting, including the ability to toggle aggregate data and the use of technology, digitisation and third-party platforms to ensure comparability and simplification.

Wrapping up, Timothée outlines that the number one risk for Amundi is the divergence of issuer operations from green bond frameworks. However, the value-added for Amundi is the infrastructure team that is needed to steer a green issue. Doris agrees that "issuers need to have a transition story". So too does Maria "corporates must be able to demonstrate the impacts for the Paris Agreement especially due to the problems with ESG ratings, reviewers and emerging markets".

Piet reiterates that there needs to be a toggling of impacts across the portfolio, “core and more is the phrase we use”. “The dirty secret is we don’t manage impact; we try to measure it”. “We need the expertise, courage, and track record to manage impact and make it comparable, but not too complicated – it won't get easier if you ask for the moon”. Piet succinctly argues, “Let's get back to basics – what is the impact?”.

The debate concludes where it began as Sean sums up, “indeed this whole market has grown on the back of transparency and reporting, it critical, it's fundamental, if they promise it we would like to know please and report afterwards”. It seems collaboration and discussion will be crucial to achieving this improved reporting endeavour. Perhaps the first steps have been completed today as Maria states, “I think this conversation we are having here is crucial - trying to have common frameworks, trying to achieve standardisation”. The final word goes to Sean “lets see can we make this a turbo charged exciting market with continued confidence that is not withered away with weak promises and weak ambition, that’s the challenge”.

TUESDAY 7 SEPTEMBER – MARKETS DAY

Markets Day Roundup: A Conversation About the Highlights of the Day

PANEL

Sean Kidney
CEO
Climate Bonds Initiative

Giuseppe Cosulich
ESG Bond Financing
Credit Suisse

Stephanie Maier
Global Head Sustainable and Impact Investment
GAM Investments

Nicholas Pfaff
Managing Director
ICMA

Sebastian Meyer
Fixed Income Indices Director
IHS Markit

Krista Tukiainen
Head of Research
Climate Bonds Initiative

Author: Minoru Daijo - MSc Development Economics, SOAS

In discussion of green bond market, speakers commonly expressed optimistic attitude toward the new impressive and large numbers of new issuance observed every year. At the end of June this year, only green bond issuance reached about 230 USD billion, and estimates half the trillion in 2021. In particular, there was a conversation about EU commitment, such as a good amount of green bond issuance by European Commission, green bond framework, and great growth of corporate green bond in Europe.

Meyer reported current circumstance of a fixed income market, such as growing clients on the iboxx, higher premium index in intensive carbon sector, and growth of sustainability-linked bond. He also stated of importance of quantitative approach in that investors can track the use of money and place, but also help financial transition through defining the project and framework.

In view of the demand side, Cosulich reported evidence of large inflows into sustainable funds by investors' demand volume up and existence of greenium. In particular, ethical clients are extremely sensitive to the engagement of sustainability, wither equity or debt instrument.

As one of the challenges, Maier pointed out lack of impact reporting or post-issuance reporting, and argued the importance of transparency for more participation of hesitating investors by improving quality of impact data of green projects and further analysis. Cosulich said that there are the number of examples of positive engagement from investors and issuer community which has resulted in improvement of the impact reporting and overall disclosure from issuance stand point, despite need of more examples in use of proceeds and sustainability-linked bonds. Pfaff stated that investors focus on not only the use of proceeds but also overall commitment of issuers in terms of transparency.

Cosulich stated that financing credible transitions strategy is key for decarbonization, and that investors try to know reason of having the target beyond the business usual, the way of shifting capital allocations, and need of diversification in portfolio in terms of sector, market development and innovation. Tukiainen pointed out that there is not yet any sort of credibly climate aligned sovereign or state bonds out, probably a few exception.

In terms of market development, diversification, or fragmentation of indices, there was a conversation about the pricing for the use of proceeds of each green, social, particularly sustainability-linked bond, which expected significant growth, contingent convertibles (CoCos), green equity developed by Goldman Sachs, and expansion of balance sheets by bank lending in East Asia.

One of interesting discussions is importance of regulatory aspect in further growth of green bond market. Kidney argued that the work with and support sovereigns is key to make more ambitious climate agenda, help them to realize capital available, to make policy objectives. Maier agreed the need to take corporate engagement work into sovereign engagement, and expected to see more opened and involved with governments in more or two dialogues to set up policy framework. To summarize, speakers all agree that this movement goes to the right direction from the facts of exponential growth of green, social, and sustainability bond markets, increasing number of issuers, and innovation and market development in transitions.

Academic reflection

In terms of speed of development, the step of developing such green bond markets is brilliant, and this session could make us recognizing again huge efforts of various stakeholders. From the view of long-term milestones, the market share of green bonds in overall bond markets is still very small and it will take more than decades away to influence overall bond market share, even though the share will be changing at a pace of around 1% every year, according to the CBI' estimate. In terms of academic research on green bond markets, there are various topics discussed, such as investors' role on environmental performance, the size and determinants of green bond premium (greenium), the role of financial institutions, and particularly central banks. One interesting research focuses on determinants of green bond issuance, which help us to increase the speed of scaling up issuance.

There are need of finding further drivers of green bond issuance to meet the Paris agreement and achieve sustainable development. In scale-up of its size, regional focus is a key to understand the bottom neck of issuance challenges and solutions, e.g., Asian region, where is important in both climate change and surged demand of energy, has a unique characteristic and approach in the development. In my view, there are need of involving Asian developing countries which still don't join membership of the Network for Greening Financial Systems and international conferences at individual organization level as well as economic and financial market' and institution' level.

WEDNESDAY 8 SEPTEMBER – REGIONAL DAY

Private Stakeholder Collaboration: The Key to Unlocking Finance for Green Growth and Resilience – In Partnership with FSD Africa

PANEL

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Coalition for Urban Transitions

Author: Ndirangu Ngunjiri - PhD in Finance, University of Nairobi

The private sector is playing a big role in carbon emission and with the same strength, it has a mission to mobilize capital for climate action. global climate finance. There are calls for the need for global partnership, between the public and private sector, to work together beyond recovery to achieve carbon reduction targets.

Over the years, climate bonds have not picked well in Africa, it is only in Kenya and Nigeria that have initiated green bonds to a larger extent. Other countries like Morocco through the Capital Market Authorities have put measures to promote green investments. Some of the measures help in protecting savings and protecting the market actors which aligns with the international standards while listening to the market players and coordinating all the markets.

Moreover, regulatory changes have been put in place, through sustainable finance development e.g., sustainable energy development, guidelines on issuing green bonds, and gender bonds. The regulatory authorities have created an ecosystem for green financing, through capacity building and training for all the market players in promoting green bonds. All these are supported Paris Agreement, and increase in investment adaptation and resilience e.g., Malindi Wamba solar renewable energy and sustainable building materials.

Private sector investments in green sectors especially North Africa, South Africa, and Kenya have helped in the growth of the sector. The private sector is ready to offer green projects in the cities with the proper guidelines, and to give more advantages in rolling out green bonds like overcoming infrastructure backlog quicker and faster in different countries.

The public sector has put some measures such as laws to establish green investment banks, creating awareness to cross-sectional sectors, and in the implementation, the process involving the local people who are affected by climate changes, using the bottom-up approach from the villages to the urban centers. Furthermore, the public sector has developed a guideline on climate financing and encouraging cooperation with the private sector in developing green bonds.

There is so much that can be done in the climate bond sector, but all the players' private and public sectors must do something.

WEDNESDAY 8 SEPTEMBER – REGIONAL DAY

Latin America and Caribbean Sustainable Finance State of the Market

PANEL

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Author: Carolina Stecca Douek, MBA Candidate, University of Oxford

As the most urbanized region in the world, the green agenda in Latin America and the Caribbean (LAC) necessarily needs to address the specific issues that trouble the region. Successful experiences, like the Chilean one, pave the way for further investments in clean transportation, but there are other sectors that should not be forgotten through the transition to greener economic frameworks.

Water and Sanitation has been a historically overlooked sector in LAC. A combination of (i) the impacts of Covid-19 – which has put the need for water and sanitation at the centre of the urban policy debate – as well as (ii) recent changes to regulatory frameworks across the region open the way for further investment in the sector. Main sectorial agendas should balance the need to catalyse universal access to services with a structural improvement of how water resources are managed in the region – from decreasing pollution in main water bodies to waste water management.

Green bonds can be a useful tool to channel investments in the sector, by harnessing further transparency in uses of proceeds and creating frameworks that can be both understandable to foreign investors as well as responsive to specific local needs.

Key data about Green Bonds in Latin America and the Caribbean (LAC)

- USD 48 billion in ESG bonds in 2020 – 62% green bonds; Chile and Brazil are market Leaders
- Energy 44% Transport 28% - opportunities in agriculture – transitional finance for the industry also growing
- Bonds with over 10 years of maturity – also significant change for the region that traditionally has challenges in accessing longer-term finance
- USD 200 million average ticket size

Market Regulation and Promotion

- There are three ways to develop them: Public-Entity Driven Regulations; Voluntary Standards/ Self-Regulation (coming from the industry itself); Cooperative focus (public policy and industry
- together) – starts by voluntary principles that are reinforced by regulatory standards.
- International Standards: performance standards, equator principles – where very useful and have helped establish local standards. Bring international experience and adapt it to local standards – the goal is to adjust it to local needs but also maintain some level of comparability between countries For investors the most important part is credibility and comparability – so this is essential to allow for the market scaling-up.

Mainstream Sustainable Finance

- 2020 – in a moment of crisis, the added value of sustainable practices was much higher than in previous years: this led to an increase in green issuances, but LAC still accounts for only 2% of global issuances.
- Sustainable bonds are becoming more mainstream – not only green or social – but the combination of both
- Future Opportunities in Sustainable Finance: 1. Working with national and sub- national issuers; 2. Opportunities in Water and Sanitation.
- Market Integrity: It will be essential to guarantee transparency and disclosure for the market to scale up

The Chilean Experience

- 2019 – Proceeds from 1 st issuance were used for projects that the government already had in the pipeline. So far, they have issued USD 8 billion in green bonds, of which 92% in clean transport.

Building Back Greener

- Green rebuild post covid – USD 1.3 trillion in green recovery in LAC. On top of previously existing opportunities, there are additional opportunities created by covid.

Links to resources mentioned during the event:

Green Bond Transparency Platform (IDB)

CIB/ IDB/ IFC report

IFC report

THURSDAY 9 SEPTEMBER – GLOBAL DAY

Green Bonds for Climate Resilience: Unlocking Trillions for a Resilient Future

PANEL

Joyce Coffee
President
Climate Resilience Consulting

Maria Tapia
Lead Climate Finance Program
Global Center on Adaptation

Stacy Swann
CEO & Board Director
Climate Finance Advisors

Isabelle Laurent
Deputy Treasury & Head of Funding
European Bank for Reconstruction and Development

Nazmeera Moola
Head of SA Investments
Ninety One

Author: Weiwei Bendixen - MSc in Economics, SOAS

It is refreshing to see a panel made up of women. However, what is most noticeable about the panel is the diverse perspective of the climate resilience experts. The panel consist of investors view, organisations working on climate resilience investment recognition and organisations which has issued climate resilience bonds.

The theme of this panel was to discuss how to leverage green bonds and sustainable finance for investments into climate resilience and adaptation. The panel consists of the moderator Joyce Coffee, president of Climate Resilience Consulting. The panel members were Maria Tapia, lead climate finance program for Global Centre on Adaptation, Stacy Swann CEO & Board Director for Climate Finance Advisors, Isabelle Laurent, Deputy treasury & head of funding for European Bank for Reconstruction and Development (ERDB) and Nazameera Moola, head of SA investment for Ninety One.

The first question asked was what the single biggest trigger for scaling up resilience investment is. Maria started by outlining the state of resilience and adaptation investment. One of the main takeaways from her answer was that the private sector constitutes a very small part of the investments in comparison to multinational organisations and governments. To this, she pointed out how these organisations and governments can contribute to building momentum on these investments. Interestingly a part of the regular climate bond category includes climate resilience and adaptation investments but it might not be on purpose.

Stacy was next to answer the question. Her take on it was how financial risks have started to show up in backwards-looking bond spreads, in particular in emerging market sovereign bonds. Meaning that the financial sector to a larger degree has started to quantify the climate-related risks. By making it more quantifiable and having more metrics the investors and financial markets would have an easier time including climate risks.

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Following this, Isabelle talked about how recent weather-related climate incidents like wildfires, higher temperatures etc. has made it clear for people that the impact on climate change is happening now. But also that mitigation is not enough, we have to focus on adaptation and resilience. When asked, she also talked about the ERDB climate resilience bond which is different to their climate bond because it focuses on adaptation and resilience. In implementing a climate resilience bond she pointed out their focus on capital expenditures but also operational expenditure which can be harder to understand in terms of climate resilience

Nazmeera was speaking from the view of investors. She talked about how mostly climate resilience investments often come in relation and maybe by accident together with other climate investments. More so, the knowledge about climate resilience amongst investors is low. Also, she emphasised the importance of metrics that are monitored and understood, to avoid greenwashing.

Overall the first question covered how Climate resilience investment is more complicated compared to climate investment. Importantly the need for metrics and a way to measure and monitor the impact of climate resilience investment. Also, the recent events which could potentially trigger a deeper understanding of the issue.

The second question covered how we need more knowledge about climate resilience investment. The main consensus was that the awareness is high, but the understanding is low. The need to harness the development finance industries knowledge on climate resilience is key, since this industry has been involved with these issues for a longer time. Especially, related to emerging markets climate resilience and adaptation. In terms of emerging markets, it was further highlighted the need for data and modelling of climate resilience. Isabelle talked about how the ERDB has been working on the mapping of geographical and asset categories and their different vulnerabilities and how to handle adaptation depending on the geographical area.

Another way is to create partnerships and reports which can solve and highlight the issue with climate resilience financing. Lastly, in general, there need to be a “skill up” of the investors and issuers of climate investments. This lead to the conclusion that the risks are unavoidable but firms and government need to be aware of the risks. They also need a plan on how to manage these risks both transitional and physical risks of climate change.

FRIDAY 10 SEPTEMBER – TRANSITION DAY
Aligning Transition and Investors: How to Highlight Commonality

PANEL

Michelle Horsfield
Head of Climate Sustainability Standards
Cllimate Bonds Initiative

Adam Matthews
Chair
Transition Pathway Initiative

Esther Stoakes
Senior Manager Assessing Low Carbon Transition (ACT)
CDP

James Mitchell
Principal
RMI

Anna Creed
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Climate Bonds Initiative

Author: Professor Dr. Tomaso Ferrando - Faculty of Law and Institute of Development Policy (IOB), University of Antwerp

The panel's premises are laudable: bringing together organisations (and investors) that are producing a variety of knowledge, standards, guidelines and benchmarks regarding the social and environmental component of the transition and explore the possibility for convergence, collaboration and synergies. The audience certainly learns about the individual efforts that the different organizations are realizing in the sectors in which they operate and from the perspective that they adapt: CDP is mainly working with companies to produce transition benchmarks; CBI is producing standards for and incentivizing the use of thematic bonds; TPI has developed an assessment template for the largest listed companies that will soon be expanded to non-listed companies; RMI is mainly working on steal transition and provides support to companies and investors that are focussed on this key sector of the contemporary (and future) economy.

Given the diversity of the initiatives that have been invited, it is clear that the purpose is that of promoting complementarity rather than thinking about actual convergence and reduction of the number of tools. The main points in common are the fact that the speakers' organizations are all providing services to investors and companies, their strong reliance on science as an indicator of the way forward, and the main focus on the reduction of carbon emissions over other elements, as evidenced by the fact that it's only towards the end of the panel that some references are made to other environmental components and the social impact of the transition, but only few indications are given on the need for a holistic approach to the transition that is not only limited to the mechanical accounting of CO2. A point that I touch upon below.

A different conversation would have thus happened with another composition of the panel, maybe inviting multiple standards providers, assessors, benchmark providers, etc. Thus, no real indication is given on how industry aims at addressing the ongoing multiplication of standards and terms of reference, which is certainly one of the reasons behind the risk of green washing. If not by 'conquering' large shares of the transition market and becoming the universally recognized tool. Or, and this is another point that was touched upon but not organically developed, by embedding the tools into public regulation. At the same time, a different conversation would have taken place if the panel had featured some representatives of the public sector (those who may use/integrate these tools) and/or representatives of the people who will be mostly affected by the transition that is promoted by these tools (that mentioned only towards the end of the speech and are not considered among the beneficiaries of the tools nor relevant stakeholders).

The link between private initiatives and public regulation is raised at the beginning of the panel. A survey is opened and the audience overwhelmingly replies that public and private actors need to work together. Throughout the panel, references are made to the role of the public and the possibilities that lie behind public taxonomies, mandatory disclosure, public incentives and the establishment of a 'level playing field' for transition finance. In particular, towards the end of the panel, the CBI representative mentioned that public regulation has a transformative potential that private initiatives do not have, because they reach a much wider number of actors and can impose behaviours and conducts, generating a domino effect that accelerates the pace of the transition. However, for the rest of the interventions the public remains in the background, one of the stakeholders that can contribute to the transition, as if the alignment with the public was not as important (if not more important) than alignment among private actors.

The limited attention to the role of the public and the need for more regulatory intervention in the definition of the way forward represents a missed opportunity to address some of the critical issues that are raised during the panel. In some instances, it seemed that the public was seen as an obstacle to the transition, given the risk that different regulators implement different taxonomies and provide different benchmarks. However, few questions arise:

- The transition is defined by everyone as a complicated, multi-decadal, complex and multi-layered challenge. However, it seems that most of the organizations want to enter into this space one investment at the time, one company at the time, without an overarching indication of what can and cannot continue. Should it be up to individual organizations, tools providers and stakeholders to decide what is the transition, where are we going and what is the minimum threshold of what is needed to fulfil the IPCC's call for a "Strong and sustained reductions in emissions of carbon dioxide (CO2) and other greenhouse gases that could quickly make air quality better, so that in 20 to 30 years global temperatures could stabilize?

- For those who call for regulatory standardization and homogenization across the world, it is not clear how this should happen in light of the jurisdictional diversity of countries, but also whether the organizations would be satisfied with weak taxonomies that are not fully aligned with the urgency and scope of the transition (for example, the first Chinese taxonomy labelled 'blue coal' as green).

- Is the transition going to be fast enough if we only rely on bottom-up changes in operations by individual funds and companies rather than introducing clear and mandatory targets and deadlines? The experience with oil and gas companies recently highlighted by CDB seems to suggest the contrary. All speakers underlined the importance of becoming credible terms of reference for investors, but also the fact that investors want to be reassured before they move their funds. Will legitimacy be obtained quickly enough without a clear obligation and without proper accountability for all those investments and projects that are not aligned with the need to maintain the temperature under the 1.5 degrees? Will managers act quickly enough without an adequate set of constraints and incentives?

- Linked to the previous point, something that emerged clearly from the conversation is that certain sectors, like steal production, may not be currently in the condition of transitioning at the pace that is needed. Especially without public subsidies and public intervention. Should the role of tools providers that of tailoring a transition on steal producers within the limits of what is possible, as claimed by some of the speakers, or should the tools providers align their work to the needs of the planets more than the needs of individual companies? In the absence of a clear public direction and given that tools providers work for companies and investors, the risk is that they will be less ambitious than needed.

- Regulatory diversity risks to represent a race to the bottom rather than a race to the top. However, nothing prevents private actors from exceeding the requirements of the public regulator. At the same time, no speaker has mentioned the fact that the EU taxonomy is voluntary and the limits that this may have in terms of promoting a quick and effective transition.

Moreover, the question on 'other parameters beyond carbon emissions' brought to the attention of the audience that there is a generalized focus on GHG and the quantification of the transition rather than a holistic approach to the multi-faceted nature of the future of the economy. The social component of the transition was mentioned, but no specific indicator or programme proposed (beside the EU taxonomy and the 'do not harm' principle with regards to human rights). Similarly, it was mentioned that environmental regeneration is much more than reducing GHG and that benchmarking should also address issues like water management and deforestation. However, a systemic approach is not just an extra, is an integral part of the international obligations that countries have undertaken when they subscribed to international human rights conventions, to the Convention on Biological Diversity, and when they undertake international and national commitments to halting deforestation, etc.

And this leads to the last point that emerged, that is the need for a value chain approach to investments. This point is raised towards the end of the panel and is of significant importance. As a matter of fact, most of the conversation is focussed on specific investments or, at best, sectors of economic activities. However, steal making, renewable energy production, automotive, chemical production and even agriculture are the outcome of complex chains of production that stretch across the planet and involve a multiplicity of sites of production, assemblage, distribution, etc. The question that does not seem to be addressed is whether it is enough to transition at one point of the chain (for example, the production of cement) without a transition of the whole chain (for example, the extraction of the raw materials, the transportation and the disposal of the cement). Tools, standards and references are certainly available for the GHG, social and environmental assessment of whole value chains, and they could have featured more prominently in the conversation.

FRIDAY 10 SEPTEMBER – TRANSITION DAY

Transition Day Roundup – A Conversation About the Highlights of the Day & Conference Closing Address: The War Against Time – How will 2021 End and 2022 Begin?

PANEL

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On the implications of what was discussed during the 5th day of the conference (Transition Day) and how investors might use these insights, Kris Atkinson sees optimism and increasing focus on process-driven transitions. The first point on optimism was highlighted by the Market Evolutions That Can Drive Transition Finance panel and the Transition Finance for Transforming Companies session. There are now various institutions (CBI, CDP, TPI) to help issuers and corporates establish credibility, which in turn would help portfolio managers with their investment decisions. The second point on the process of transitions, that no industry or organisation should be left behind, was highlighted in the Transition for Buildings, Agriculture and Transport panel and The Opportunity for Rapid Transition with Green Hydrogen panel. Bertrand Millot expresses that the finance industry needs to do something and that there is a need to reconcile investment opportunities with risk. He insightfully emphasises that there is a dichotomy between the quantity of carbon which fund managers have in their portfolio and the quality of carbon – wind turbines, for example, are made with cement foundations and the blades are derived from oil, a case that shows portfolio decarbonisation does not necessarily equate to real-life decarbonisation. Bertrand Millot also states that there is a need to improve the tools at disposable for investors in terms of assessment and quantification, to understand which players are doing the right thing as opposed to merely telling stories.

On how ESG is reflected in indexes, Lydia Harvey points out the ‘difficulty with getting the right data to apply [the] transition across all of these different asset classes’, especially when we consider the wide range of JP Morgan’s index products, which can span across different investable fixed-income, emerging-markets issuer groupings (corporates, sovereigns, private companies). There is a great opportunity to look at the transition problem from an index perspective as financial institutions can direct capital and provide incentives at an incredible scale. Alluding to Anna Creed’s comments made during the Market Evolutions That Can Drive Transition Finance panel, Lydia Harvey notes that when investors are looking at different companies and sectors, it is no longer about whether issuers are best-in-class anymore – it is now a simple question of whether organisations are actually improving or decarbonising.

On the biggest challenges that come with applying ESG methodologies and seeking investments that will align with rapid transitions, Bertrand Millot highlights that the success of these actions is ultimately a collective effort made by the company, regulator and everybody else, not only the investor. The government also has a big role to play in terms of decision making, such as deciding the asset base of utilities etc. Another issue is at the level of disclosure. Organisations such as SBTi and CBI have made commendable progress to normalise the issuer opinions on the quality of company efforts but a lot of changes are still needed overall.

On the decarbonisation of carbon-intensive companies (e.g., Sasol) and how they might cross investors' portfolios, Kris Atkinson comments that it is difficult for bond investors to fund emerging technology as their upside is capped by the low-interest rate. Major fixed-income investors are more likely to invest in large oil and gas or industrial companies with a clear transition plan. Many investors are constrained by the carbon intensity limits in their portfolios. For example, the addition of a company such as the Holcim Group would greatly distort a fund's carbon footprint. The labelled sustainability bond market has been good at financing utility companies and banks and less so with financing high carbon-emitting players.

On whether investors should support high-carbon companies with an aggressive decarbonisation strategy, Bertrand Millot emphasises that investors can start to think about how to invest in the grey or black areas. Lydia Harvey highlights that this is front and centre of JP Morgan's agenda. In particular, there has been an increased demand for a new index methodology that accounts for decarbonisation or alignment with temperature goals or corporate benchmarks that are aligned with EU benchmark regulations. However, there are now tough minimum technical standards for releasing and labelling an index. Another problem arises: the benchmark regulations do not apply to sovereigns. The fundamental question remains — how would ESG targets apply to private companies or emerging market companies? Lydia Harvey believes that using the most basic data available, such as Scope 1 and 2 emissions, would be a starting point.

On issuers' engagements with fixed income investors, Kris Atkinson states that Fidelity International is driving engagements with sovereign issuers and quasi-sovereign issuers in emerging markets. Engagements with companies are already happening. Bond investors have one advantage over equity investors: they are frequent providers of capital. Corporates want to hear from fixed-income investors in terms of what best practice looks like so that they can improve their market perception. Kris Atkinson notes that while sustainability-linked bonds may not include ambitious-enough targets, they act as a vehicle that enables engagement. Bertrand Millot notes that banks are taking a more active role when examining ESG issues and dialogues with clients are now common. Engagements on the equity side are also very important because of collective governance power at the level of voting. Lydia Harvey states that following a survey on investing in emerging market sovereign debt, clients have reported that 'they don't engage with sovereign debt management offices (DMOs) as much as they would like to'. JP Morgan acts as a conduit, connecting investors with DMOs, with the first 'round-table' with DMO representatives from Hungary. The next step is to clean data sets and better understand whether sovereign nationally-determined contributions (NDCs) are Paris-aligned and can be credibly integrated into indexes. Sean Kidney emphasises that the public sector will not need to raise all the capital as investors will provide funding as long as the plan is bankable. He also expresses that the New Development Bank (NDB) will need to increase their climate commitment of USD40bn and match the levels of European banks such as the European Bank for Reconstruction and Development (EBRD) in terms of green bond investments.

On advice on how to go forward with these ESG issues as leading asset owners in light of the transition argument and the broader issue for mobilising capital for climate solutions, Bertrand Millot notes the complexity and difficulty of implementing changes at scale in an organisation but it is important to start setting any targets, with the aim of eventually becoming comfortable with net-zero targets. NDCs are important but the government can also set the stage by setting the right incentives at a macro level. Bertrand Millot raised the example of feed-in tariffs for green power, above the going power rate. Kris Atkinson believes that some of the simplistic solutions do not necessarily create a real-world impact. It depends on whether asset owners are interested in 'an optically-clean portfolio' or driving real-world impact. Environmental objectives should not be achieved at the expense of financial returns. Lydia Harvey believes that 'No one can do this in isolation'. For corporates, this means setting targets and disclosing performance. For data providers, this means continually coming up with new methodologies and data points and understanding how they can be applied across different markets. For asset managers, this means learning how to build a successful transition-portfolio methodology. For clients, this means pushing index providers to create wider and better ESG product offerings.

In his concluding remarks, Sean Kidney states that there will need to be an outstanding green bond market of USD50tn for there to be substantial progress in reaching Paris-aligned targets. USD90tn is expected to be invested through to 2050 in 'green stimuli'. Everybody has a role to play e.g., development banks to underwrite risks which would unleash capital into green investments (though this would require an activist approach which less than a dozen development banks currently embody), regulators to provide investors with the confidence to make decisions and banks to structure greener, transition deals. There is also an opportunity to increase equality, which is a driver to a sustainable society. Ultimately, sustainable returns and a sustainable future are inextricably tied: we can't have one without the other.

CLIMATE BONDS CONFERENCE21 SESSION VIDEOS

Beyond the Trillion Dollar Challenge: The Fast-Evolving Global Sustainable Debt Market
(Translation: French, Spanish, Portuguese, Chinese)

Transparency and Reporting in the Green Bond Market
(Translation: French, Spanish, Portuguese, Chinese)

Markets Day Roundup: A Conversation About the Highlights of the Day
(Translation: French, Spanish, Portuguese, Chinese)

Private Stakeholder Collaboration: The Key to Unlocking Finance for Green Growth and Resilience – In Partnership with FSD Africa
(Translation: French, Spanish, Portuguese, Chinese)

Latin America and Caribbean Sustainable Finance State of the Market
(Translation: French, Spanish, Portuguese, Chinese)

Green Bonds for Climate Resilience: Unlocking Trillions for a Resilient Future
(Translation: French, Spanish, Portuguese, Chinese, Japanese)

Aligning Transition and Investors: How to Highlight Commonality
(Translation: French, Spanish, Portuguese, Chinese, Japanese)

Transition Day Roundup – A Conversation About the Highlights of the Day & Conference Closing Address: The War Against Time – How will 2021 End and 2022 Begin?
(Translation: French, Spanish, Portuguese, Chinese, Japanese)