GreenStream

Green Standards

Task A.6.3 of project “Green Financial System for Kazakhstan”

Final Report

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Content

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1. Introduction

1.1 Background and purpose

There is a vast body of international organisations and networks pushing forward disclosure rules, product standards, investor coalitions and industry networks on green financing. These national, regional and global frameworks support the development of green financial markets.

These frameworks serve a number of functions in the market; increasing transparency, highlighting risk, exchanging ideas, setting rules and defining methodologies for estimating and measuring environmental and social impact of investments. Some frameworks also work to define green standards for the financial markets. UNEP FI has been mapping the key market initiatives and partnerships on sustainable finance in a forthcoming report[1]. Figure 1 below provides an overview of key initiatives in banking (e.g. Sustainable Banking Network, Equator Principles), investment (e.g. UN PRI, Carbon Disclosure Project), and insurance (e.g. Principles for Sustainable Insurance) and the size of each initiative. Green standards are also available for company-level operations and products (e.g. ISO 14000 standards) as well as for specific sectors (e.g. Cement Sustainability Initiative) and projects (e.g. Clean Development Mechanism).

Under the Paris Agreement, countries face an extensive new transparency framework for climate action and support, including reporting on climate finance provided, received and mobilised and associated impact and results, with detailed modalities, procedures and guidelines to be defined by the end of 2018 and adjusted from time to time.[2] The Green Climate Fund (GCF) is developing its mitigation and adaptation performance measurement frameworks.[3] Looking forward, there is clear value in applying green standards that generate information that is relevant to and compatible with the broader transparency framework under the Paris Agreement and in line with the GCF frameworks.

[1] UNEP FI: A Changing Sustainable Finance Landscape: From Leadership Actions to Market Transformation (forthcoming).

[2] http://unfccc.int/resource/docs/2015/cop21/eng/10a01.pdf

[3] https://www.greenclimate.fund/documents/20182/24946/GCF_B.08_07_-_Further_Development_of_the_Initial_Results_Management_Framework.pdf/7c362a8f-7b1e-4519-9bf2-04aa93806c97

Figure 1. Market initiatives and partnerships on sustainable finance[4]

Green standards provide an important base for a green financial system in that standards anchor local financial systems into international frameworks on sustainable finance. Standards also create a platform for engaging with international sustainable finance networks, as well as with local and global stakeholders and NGOs.

In light of the growing number of green standards there is a need to build understanding of the scope and applicability of various green standards in support of the Green Economy Concept in Kazakhstan. The project "Kazakhstan: Green Financial System" is aimed at bridging the gap between Kazakhstan's financial system and the needs of the Green Economy. The Astana International Financial Centre (AIFC) is looking to use the Green Financial System as one of its strategic pillars and it aims to facilitate domestic and international financial sectors to provide green financial instruments, trading products and services for Green Economy development. Green standards are a core component of a green financial system and the purpose of this report is to assess the convenience of introducing green standards for financial intermediaries in Kazakhstan.

The report and analysis will provide guidance for identifying and recommending green standards for adoption by the AIFC in subsequent work segments of the project.

[4] Image from UNEP Inquiry, The Financial System We Need (2016), p.23.

1.2 Context

Work by the G20 and the Financial Stability Board on climate risk disclosures is pushing disclosure rules through the regulatory chain. The global adoption of G20/OECD Principles for Corporate Governance[5] serves as an example for climate risk disclosure on how high-level financial standards are disseminated in the financial system. The Governance Principles have been adopted by the Financial Stability Board as a reference for a sound financial system, they are used by the World Bank/IMF in their analysis of countries' financial systems and they form the basis for the Basel guidelines on corporate governance.

The UNEP Inquiry finds that most financial standards are focused more broadly on sustainable development but also offer synergies to more specific environmental (incl. climate) aspects, especially in disclosure, systemic risk, transparency and corporate governance. The international financial regulatory framework, mainly through its focus on sustainable development, is well adapted to develop and impose more climate-risk and environmentally-driven standards and guidance on the sector. Within the realm of international financial regulation, UNEP FI distinguishes that different asset pools and actors are developing regulation, guidance and codes of conduct to define their approach to green finance, as illustrated by Figure 2 below. Through international co-operation, these actors and asset pools have developed international green principles, disclosure standards and sustainability stress tests to provide a wide framework of guidance for green financial systems.

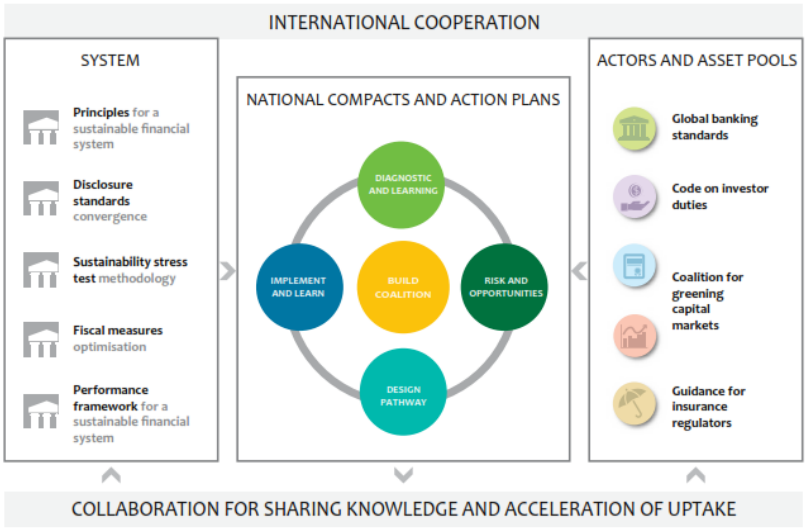


Figure 2. Frameworks for building a climate finance system[6]

1.3 Approach

The report is set out to assess the convenience of introducing some green standards through the Astana International Financial Centre (AIFC) in Kazakhstan. For the purposes of this report "convenience" is defined as the ease in which a green standard can be adopted in terms of:

[5] http://www.oecd.org/corporate/principles-corporate-governance.htm

[6] Figure from UNEP Inquiry, The Financial System We Need (2015), p.15.

- need to build own know-how and technical capacity for supporting the adoption of the standard
- need to build own know-how and technical capacity for enforcement of the standard
- ability to adopt a named standard unilaterally
- need to support third-party service providers for enforcing the standard
- the likelihood of the standard being relevant[7] and broadly recognised also in the future

The standards should be easily adoptable and quick to implement and allow users of the standard to rely on an existing repository of information and guidance without the AIFC, as a potential enforcing agency, having to build internal capacity for implementing the standard.

Chapter 2 presents select green standards across the financial industry. The standards chosen for inclusion in the review are standards that already largely meet the above criteria and could conveniently be adopted by AIFC in support of a green financial system. There are also other attributes that influence a decision to adopt a green standard, in addition to the above defined "convenience". The latter part of chapter 3 introduces other attributes that AIFC could use to evaluate the merits of different standards more generally.

Chapter 3 concludes the analysis by categorizing the identified green standards for financial institutions into three classes on the basis of the basic purpose of the standard. First, measurement standards are used to quantify environmental impacts or to define the environmental quality of underlying finance. These are typically standards that act as eligibility criteria or guidance for environmental performance measurement and results-based payments. The second category includes standards that are focused on defining how green finance should be tracked and reported. The third category, disclosure standards, defines what information must be disclosed to evaluate risks. These green standard types are listed in Table 1 below. The table also lists the financial segment for which the green standard is relevant. Some standards only apply to one category of financial assets or financial segment, e.g. project finance and investments, whereas some standards apply across the whole financial institution. These are highlighted in a separate column below.

Market segment Green Standard Type	Financial Institution	Project Finance and investments	Asset management	Debt capital
Measuring quality or quantity				
Finance tracking and reporting standard				
Disclosure standards				

Table 1. Types of green standards

Some of the presented green standards partly embed the importance of aligning financial sector reporting with environmental disclosure practices in green financial systems. This is seen as an elemental part in any green financial service or product as environmental reporting and disclosure allows investors to identify environmental attributes to make educated investment decisions and understand the value of green financial products. Environmental risk disclosure also has a fundamental role in evaluating the risks (and long term viability) of a project, a company, even the whole financial system. Given the significance of disclosure, it is the most common action taken in green financial system market or regulatory development as identified by UNEP FI. Almost 40% of all actions are focused on disclosure, metrics and reporting. The following chapter presents only a handful of standards, focusing on those relevant for this report. A comprehensive overview of

[7] The relevance of a standard is loosely assumed to depend on it being broadly recognized and deemed relevant also in the future e.g. under the Paris Agreement.

voluntary and regulatory frameworks on disclosure can e.g. be found in Appendix 3 of the Phase I Report of the Task Force on Climate-Related Financial Disclosures[8].

In January 2017 UNEP FI released the "Principles for Positive Impact Finance[9]" (PPIF) together with a group of global banks and investors accounting for over USD 6 trillion in assets and including e.g. BNP Paribas, ING and Société Générale. The PPIF illustrates a green standard in a broadest sense as they use a set of criteria to measure an investment's contribution to the achievement of the UN Sustainable Development Goals (SDGs). The UN SDGs cover 17 different economic, environmental and social themes meaning that the PPIF adresses a wide variety of environmental and social issues and provide a comprehensive SDG disclosure framework for the finance community. The PPIF is an example of a "meta-standard" as it relies on other disclosure standards (many of which included in Chapter 2 below) to provide the needed information for reporting.

PPIF's relevance for AIFC in the short-term is limited by it's application around all SDGs which is much wider than AIFC's focus than the green financing and investments. But it serves as an example of how some of the risk-focused (e.g. Equator Principles), instrument-specific (e.g. Green Bond Principles) and sector-specific (e.g. Principles for Responsible Investment) standards introduced in Chapter 2 can be used in a broader context as well.

2. Green Standards

2.1 Task Force on Climate-related Financial Disclosures

In response to a request from the G20, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures at the end of 2015 with a mandate to "*undertake a coordinated assessment of what constitutes efficient and effective disclosure and design a set of recommendations for voluntary company financial disclosures of climate-related risks that are responsive to the needs of lenders, insurers, investors, and other users of disclosures*". The purpose of the work is to enable financial stakeholders to make more informed investment, credit and insurance underwriting decisions and to improve the understanding of sector and system wide exposure to concentrations of asset classes with high carbon and climate risk. In its final report, in December 2016[10], the Task Force developed four general recommendations on climate related financial disclosures covering governance, strategy, risk management and metrics and targets that are applicable to organizations across sectors and jurisdictions (see Figure 3). In addition specific recommendations were provided for disclosures and for the financial sector and select non-financial sectors.

[8] https://www.fsb-tcfd.org/publications/phase-i/

[9] http://www.unepfi.org/wordpress/wp-content/uploads/2017/01/POSITIVE-IMPACT-PRINCIPLES-AW-WEB.pdf

[10] https://www.fsb-tcfd.org/wp-content/uploads/2016/12/16_1221_TCFD_Report_Letter.pdf

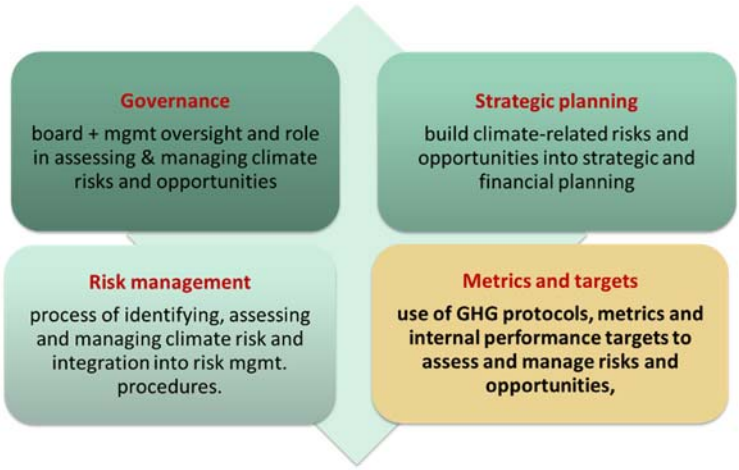
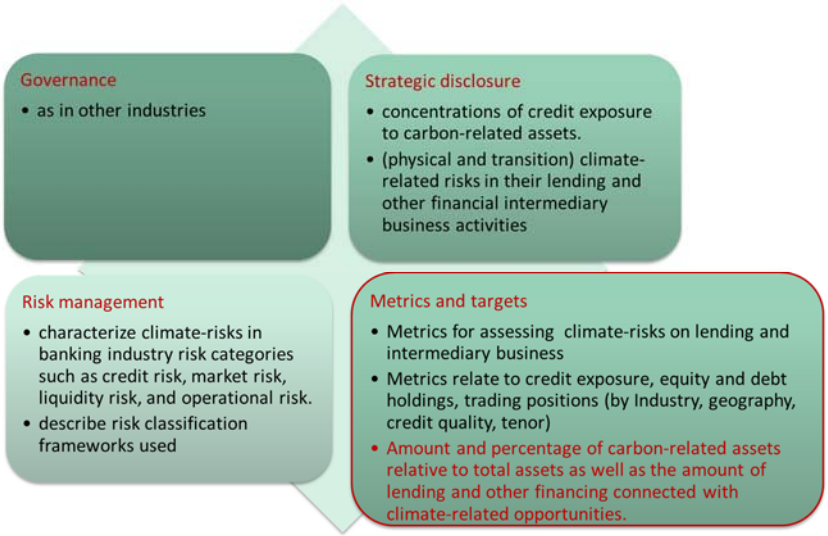


Figure 3. Recommendations on climate-related disclosures

Governance focuses on broad oversight of climate risks and opportunities and the management's role in assessing and managing these. Strategic disclosure focuses on how an organisation has taken short-, medium- and long-term climate-related risks and opportunities into account in its strategic and financial planning under different climate targets. Risk management disclosures require disclosure on the process of identifying, assessing and managing climate risk and how such procedures are integrated into overall risk management procedures. Finally companies are required to disclose the metrics and targets that are used to assess and manage climate change-related risks and opportunities, disclosure of GHG emissions under the GHG protocol and internal performance targets. The Task Force also provides specific guidance[11] for financial sectors including banks, some of which are presented in Fgure 4 below.



[11] https://www.fsb-tcfd.org/wp-content/uploads/2016/12/18_1216_TCFD-Annex-A4.pdf

Figure 4. Select recommendations on climate-related disclosure to financial sector

The Task Force's reporting framework can be seen as an "umbrella" disclosure reporting framework for financial institutions and a standard against which green reporting frameworks can be built. The report's implementing guideline provides an overview[12] of alignment with other key disclosure frameworks, including the e.g. G20/OECD Principles of Corporate Governance[13], the CDP Climate Change Questionnaire 2016[14], Global Reporting Initiative G4 Sustainability Reporting Guidelines[15], the Climate Disclosure Standards Board Climate Change Reporting Framework[16], and the IIRC Framework[17]. The Task Force recommendations thus provide guidance on how it overlaps with key reporting initiatives in pushing climate disclosure into mainstream financial filings.

2.2 EBRD Environmental and Social Risk Management Procedures

One of EBRD's core mandates is to promote sustainable development through its lending and investment activities. As part of this mandate the EBRD requires its financial intermediaries to implement environmental and social risk management systems.The EBRD's Environmental and Social Risk Management Procedures provide financial intermediaries guidance on how to assess environmental and social risks and identify of environmental opportunities in financial transactions. EBRD also provides advice and guidance to partner banks on how their organizations should carry out environmental and social evaluations in investment and financing activities. EBRD provides financing to its financial intermediaries through e.g. bank loans, SME lending, fund management and equity investments. The environmental and social risk management procedures are tailored for various types of financing.

The EBRD Environmental and Social Risk Management Procedures set performance requirements for partner financial intermediaries. These performance requirements provide a standard against which intermediaries must report. In doing this, the bank can promote international best practices in reporting and assessment of environmental and social issues in a range of financial transaction types. Specific guidance is provided for corporate, SME and micro lending, passive and active equity investments, leasing, factoring, mortgage lending, insurance and trade finance. The risk management procedures cover risk screening, risk assessment, risk control and risk monitoring for all different financial products. The bank provides risk screening tools, risk categorization guidance for 17 different sectors that financial intermediaries can use to assess sector-specific environmental and social risk. In addition, separate technical eligibility criteria are provided for wind, hydro, solar, geothermal and biomass projects.

The risk management procedures also provide guidance on how to meet EBRD's reporting requirements, manage and implement environmental due diligence procedures. In addition technical guidance on environmental and social risk assessment includes:

- Assessment of greenhouse gas emissions
- Biodiversity good practice guidelines
- Environmental and social guidance for hydropower projects

[12] ibid p.14-16

[13] https://www.oecd.org/corporate/principles-corporate-governance.htm

[14] https://www.cdp.net/en/climate

[15] https://www.globalreporting.org/information/g4/Pages/default.aspx

[16] http://www.cdsb.net/

[17] http://integratedreporting.org/

- Biodiversity conservation and sustainable management of living natural resources
- Social guidance (family-friendly working, gender equality, resettlement guidance, labour and working conditions

The EBRD Environmental and Social Risk Management Procedures are an example of a green standard that covers both disclosure and assessment using a wide body of public guidance and reference documernts put together by the EBRD.

2.3 Climate Disclosure Standards Board

The Climate Disclosure Standards Board (CDSB) works to align environmental information reporting with standard corporate reporting and elevate the importance and relevance of environmental data for investors. CDSB offers a framework for reporting environmental information created by a consortium of business and environmental NGOs. The reporting framework is conciously not built as a separate standard but instead leverages initiatives that are widely adopted.

The Climate Change Reporting Framework[18] (CCFR) provides detailed advice on how material information on climate change should be integrated with financial performance in mainstream corporate reports. The objective of the framework is to "*provide information about the reporting organization that is useful to present and potential future equity investors, lenders and other creditors in making decisions in their capacity as capital providers*". This means that the framework is largely intended to be used by investors in a similar fashion as appraisal of information in financial reports. It is aligned with the principles and objectives as set out by the International Accounting Standards Board and organisations using the CCFR are expected to use the same level of care and responsibility in providing information as with mainstream financial informatrion disclosure. The framework is useful for companies for providing investors a broad view on climate risks and opportunities. For governments, the framework provides a method that can be used in GHG reporting schemes.

The CCFR covers two parts: strategic analysis, risk and governance and greenhouse gas emissions. The first part requires the manangement to report how an organization's strategy and operational performance are affected by climate change related risks and opportunities and how the organization addresses those effects provides. The second part aims to provide high quality quantitative data on GHG emissions to allow investors to gauge and analyse risks associated with those emissions. Importantly, the CCFR does not provide its own standard for GHG accounting, but relies on existing global standards such as the the ISO 14064[19] and the Greenhouse Gas Protocol[20] or national or regional accounting programs for GHG emissions

In an expansion of its work on climate change, the CDSB in 2015 released the Framework for reporting environmental information & natural capital[21]. This reporting framework sets out principles and requirements for reporting on a wide variety or environmental and natural capital-related information including:

- GHG emissions;
- Renewable/non-renewable energy generation, use and consumption;
- Land use, land use change and forestry (LULUCF);
- Non-GHG emissions to air, land and water, e.g. noise, odour, particulates, pollutants, etc.;

[18] Available at: http://www.cdsb.net/what-we-do/reporting-frameworks/climate-change

[19] http://www.iso.org/iso/home/news_index/news_archive/news.htm?refid=Ref994

[20] www.ghgprotocol.org

[21]http://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital

- Renewable and non-renewable material resource use, e.g. forest products, fish stocks, minerals, metals, etc.;
- Water use and consumption;
- Waste and spillages, e.g. mining and hazardous waste, radiation and industrial by-products.

the broad scope makes the CDSB a starting point for enforcing wider environmental reporting practices beyond climate mitigation and adaptation. Given that the CDSB frameworks are process oriented and independent of measurement protocols, they can be used as a green "meta" standard for environmental accounting and reporting.

2.4 Multilateral Banks' Common Principles

The Multilateral Development Banks'[22] common definitions for tracking and reporting climate finance provide definitions on investment categories for climate mitigation and adaptation activities. The Common Principles[23] for Climate Mitigation Finance Tracking and the Common Principles for Climate Adaptation Finance Tracking agreed by the MDBs and by the International Development Finance Club aim to achieve a common definition of what counts as mitigation and adaptation finance. The principles include a set of common definitions, guidelines and a list of eligible activities and can be e.g. used as a standard for defining categories for green investment.

Based on the Principles, an activity will be classified as climate mitigation if it promotes "*efforts to reduce or limit greenhouse gas (GHG) emissions or enhance GHG sequestration*". The principles offer a useful tool for defining green investments as they use a granular approach and recognize that mitigation activities can be found in stand-alone projects, in a sub-component of a larger project, a credit line or in multiple stand-alone projects under a larger program. The list of covered activities is provided below. The eligibility criteria enable activity based definitions for defining or trackig green financial flows, but do not include a GHG accounting standard.

Examples of activities eligible for classification as climate mitigation finance
Renewable energy (generation, heat, RE grid integration)
Lower-carbon and efficient energy generation (transmission, thermal power plants)
Energy Efficiency (industry, buildings, public utilities, vehicle fleet)
Agriculture, forsetry and land-use (afforestation, reforestation, livestock)
Non-energy GHG reductions (fugitive emissions, carbon capture)
Waste and wastewater
Transport
Low-carbon technologies (products and equipment)
Cross-cutting issues

[22] Joint Report on the Multilateral Development Banks' Climate Finance (2016). Available at: http://www.adb.org/documents/joint-report-mdbs-climate-finance-2015

[23] Both Principles available through the EBRD at: http://www.ebrd.com/what-we-do/get/measuring-impact.html

Figure 5. Climate mitigation project categories

For adaptation, the MDB principles relate to financing activities that address current and expected effects of climate change, especially in investments where climate change can have an material adverse effect on the investments which can be reduced or mitigated with adaptation investments. For adaptation investments there is no list of project categories, the methodology instead sets out an approach to identify and demonstrate links between climate risks and vulnerabilities and the financed activity. This definition on adaptation thus provides a broad approach on green finance which broadly covers any sector where a climate risks are apparent and the climate adapation finance can be ringfenced from the other investment activities.

2.5 Equator Principles

The Equator Principles are the financial sector's leading voluntary standard for identifying, assessing, and managing social and environmental risks in relation to project finance. The Principles are based on the International Finance Corporation's Performance Standards and the World Bank Group's Environmental, Health & Safety Guidelines. Currently 87 financial institutions in 36 countries have adopted the Equator Principles and they cover over 70% of debt in emerging markets. The Principles[24] apply to four financial products: project finance advisory services and project finance with capital costs above US$ 10 million, project related corporate loans to single projects above US$ 100 million with a tenor above 2 years and bridge loans that are intended to be refinanced through project financed or a corporate loan. The Equator Principles cover 10 topics from risk categorisation, environmental and social assessment and standards to environmental and social management plans, stakeholder engagement, review and reporting.

The principles set out a process for reviewing projects first through screening and categorising environmental and social risks and impacts using the categorisation process of the International Finance Corporation. Environmental and social assessment should also include an evaluation of a project's compliance with IFC Performance Standards on Environmental and Social Sustainability and the World Bank Group Environmental, Health and Safety Guidelines. High risk category projects need a separate environmental and social management plan for complying with relevant standards.

Any financial institution active in project finance can adopt the Equator Principles by becoming a member and agreeing to meet the ongoing reporting requirements through the Equator Principles Secretariat. By adopting the principles a financial institution commits to implement the principles in all project financing and project-related corporate loans and not finance projects that do not comply in all matters with the principles.

2.6 Green Bond Principles

The Green Bond Principles[25] is voluntary best practice market guidelines that was established by a consortium of investment banks and today includes almost 200 members including underwriters, issuers and investors. It is the most widely used set of rules for the emerging green bond markets and provides a standard for the process of issuing a green bond. Ongoing monitoring and development of guidelines is managed by an independent secretariat hosted by the International Capital Market Association. The Principles provide issuers guidance on the four key components of a green bond; 1) use of proceeds - availability of information to evaluate the environmental impact of the investment and highlight the importance of tracking proceeds, 2) project evaluation and selection, 3) management of proceeds - allocating funds to eligible projects, and 4) reporting - providing periodic

[24] http://www.equator-principles.com/resources/equator_principles_III.pdf

[25]http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/

reports on use of proceeds. In doing this, the Principles provide a process guideline for issuing a green bond, but the Principles do not provide details on “green” or a standard against which projects can be measured against. The green definitions are left to the issuer to determine and for the green bond investors to approve. However, broad green project categories suggested by the principles include: renewable energy, energy efficiency (including efficient buildings), sustainable waste management, sustainable land use (including sustainable forestry and agriculture), biodiversity conservation, clean transportation, clean water and/or drinking water, climate change adaptation and eco-efficient products and production technologies.

The Green Bond Principles are hosted by the International Capital Markets Association and membership is open to financial institutions that have issued, underwritten or placed, or invested in a green bond. Service providers, academia and NGOs can join the GBP as observers.

2.7 IFI Greenhouse Gas Accounting standard

The International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting[26] provides a green standard for ex-ante estimate of project based GHG emissions. Through the accounting standard IFIs agree to account for project based emissions using established methodologies for ex-ante GHG accounting. Such established methodologies include e.g. the GHG Protocol, the Clean Development Mechanism methodology, Verified Carbon Standard, Gold Standard and the EU Emissions Trading Scheme and ISO 14064. Using these methodologies, the approach calculates net annual emissions savings for projects against a ”without project scenario”, i.e. by comparing a forecasted ex-ante emissions with a pre-investment baseline scenario. The standard also includes specific technical eligibility guidance for renewabel energy, energy efficiency and transport sector projects.

The standard sets an annual reporting requirement on the aggregate net GHG emissions for all mitigation projects under the framework.

2.8 Climate Bonds Standard

The Climate Bonds Initiative (CBI)[27] is a not-for-profit organisation working to mobilize the global bond markets for climate mitigation and adaptation. CBI has developed the Climate Bonds Standard, a green standard to provide investors with clear criteria for assets and projects to which green bond proceeds can be allocated. The standard is made up of two parts: the parent standard (Climate Bonds Standard v2.0[28]) and a suite of sector-specific eligibility requirements. The parent standard covers the certification process and pre- and post-issuance requirements for all certified bonds. The sector criteria detail specific requirements for assets identified as falling under a specific sector. Currently criteria exist for solar, wind, water, low-carbon buildings, low-carbon transport and geothermal projects. The criteria govern the eligibility and types of projects that can be certified under the standard. Future criteria will cover bio-energy, hydropower, land-use and marine projects. The complexity of sector criteria varies significantly e.g. between solar and water projects (where several sub-categories exist). For certification, independent accredited 3rd party (pre-approved by CBI) verifiers provide an assurance report that a project meets requirements in the parent standard and the eligibility criteria of the sector standard.

The standards and the certification process is backed by the Climate Bond Standards Board of investor representatives, which collectively represent $34 trillion of assets under management.

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[26] http://www.thegef.org/sites/default/files/file_attach/IFI-Harmonisation-Framework-GHG%20Accounting-2015.pdf

[27] http://www.climatebonds.net/

[28] http://www.climatebonds.net/standards

Currently 20 projects (incl. US, Mexico, India, Australia, Philippines, the EU and Morocco) have been certified under the standard. The standards and the certification procedures are in line with the requirements of the green bond principles.

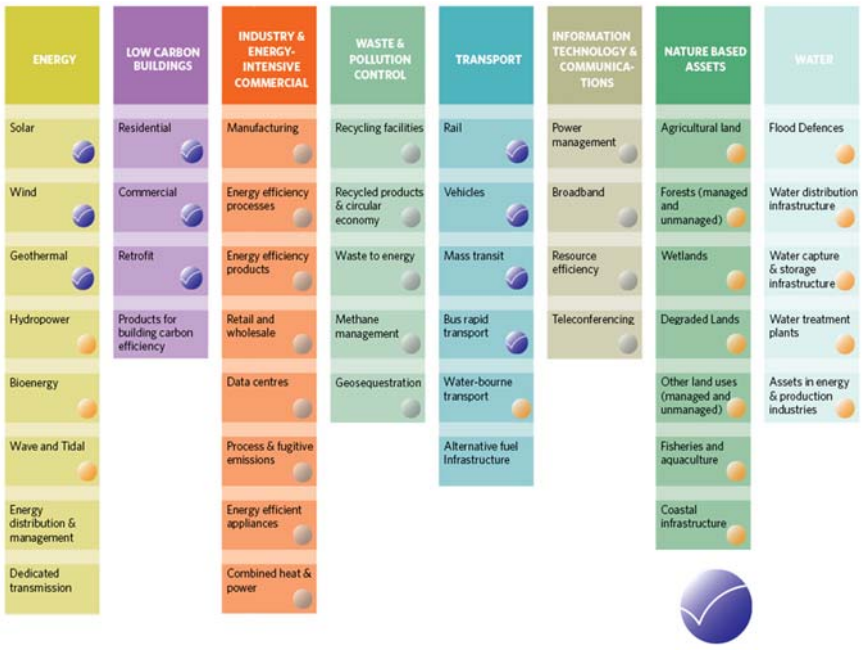

Figure 6. Sector criteria for certification (blue dots) under the Climate Bonds Standard (Source: Climate Bonds Initiative)

2.9 Principles for Responsible Investment

The Principles for Responsible Investment (PRI) is an investor organisation with over 1500 members managing assets over US$ 60 trillion. PRI is supported by UNEP FI and UN Global Compact and works to help its signatories understand and implement environmental and social governance factors into investment decisions. It is one of the most broadly adopted ESG reporting standards for investors and serves as an example of investor-focused green standard.

PRI signatories have to follow PRI reporting guidelines[29] that have different modules for direct ownership of equity, fixed income, property, private equity, infrastructure and for investment consultants and fiduciary managers covering investment manager selection, appointment and monitoring. PRI thus provides a cross-cutting body of reporting tools for a range of investors.

The PRI reporting framework consists of 12 modules, tailored for each asset class. Reporting is only required if the investor has more than 10% of assets under management in that asset class. The various asset classes are shown in the figure below.

[29] https://www.unpri.org/report

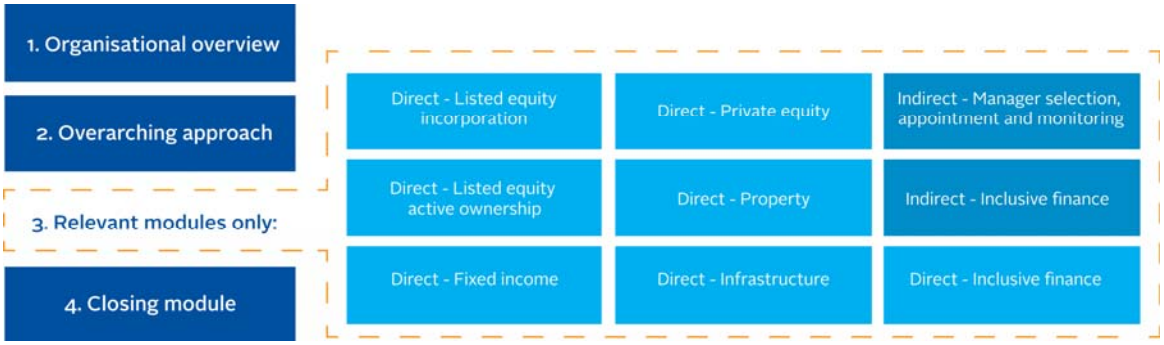

Figure 7. Reporting modules under the PRI (Source: PRI)

2.10 UNFCCC standards on climate-related reporting

The UN Framework Convention on Climate Change (UNFCCC) has been the standard-setter for national climate-related reporting for some 25 years, with differentiated requirements for developed and developing countries. The Kyoto Protocol introduced a detailed reporting and accounting framework for developed countries with targets under the Protocol, as well as standards and procedures for issuing carbon credits for individual projects under the Clean Development Mechanism (CDM) and Joint Implementation (JI), thereby extending UN standards also to the private sector. The Global Environmental Facility (GEF) and the Green Climate Fund (GCF), which are operational entities for climate finance under the UNFCCC, have their own (but coordinated) reporting requirements for supported entities and activities.

Under the Paris Agreement, all countries are required to submit climate commitments in the form of Nationally Determined Contributions (NDCs) and to report on their climate action and support under the enhanced transparency framework. The purpose of this framework is to provide a clear understanding of climate change action, including clarity and tracking of progress towards achieving Parties' individual NDCs, with built-in flexibility to take into account differences in countries' capacities. Besides annual greenhouse gas inventories, the transparency framework covers information necessary to track progress made towards NDCs as well as information on support (climate finance, technology transfer, capacity building) provided or received, and the impacts and results thereof. This framework will build on the existing transparency arrangements under the UNFCCC and its details are still under negotiation, to be agreed by the end of 2018. The detailed rules are to promote the principles of transparency, accuracy, completeness, consistency and comparability.

In 2010, the Standing Committee on Finance (SCF) was established under the UNFCCC to advise on climate finance issues, including the measurement, reporting and verification (MRV) of climate finance provided to developing countries.[30] The SCF will also serve the Paris Agreement. In November 2015, the SCF launched a two-year work plan for improving MRV of support. Progress on this work was reflected in its second and most recent Biennial Assessment and Overview of Climate Finance Flows (2016 BA)[31], published in November 2016. The 2016 BA highlights prevailing challenges, such as lack of information on underlying assumptions, definitions and methodologies, and further areas of improvement the SCF aims to address in the coming years, and also points out various ongoing efforts to improve transparency and consistency of climate finance reporting, including the common principles for tracking climate finance by MDBs and the IDFC and the

[30] http://unfccc.int/cooperation_and_support/financial_mechanism/items/10120.php

[31] http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/10028.php

Research Collaborative on Tracking Private Climate Finance[32]. It also notes that efforts to monitor results, impacts and effectiveness of climate finance are gradually maturing, albeit still nascent. The lack of consistency of methodologies remains a challenge in this area, where to concepts of causality, baselines, additionality and attribution add to the complexity of reporting. However, the report notes progress in this respect by the adoption of common principles by DFIs. The 2016 BA invites "*multilateral climate funds, MDBs, other financial institutions and relevant international organizations to continue working to further harmonize methods for measuring climate finance and to advance comparable approaches for tracking and reporting on impacts*".[33]

The SCF is a key institution for incorporating ongoing efforts on climate finance measurement and reporting into the UNFCCC and its Paris Agreement. The SCF makes recommendations on UNFCCC rules on MRV of climate finance, relevant for countries, the Global Environmental Facility (GEF) as well as the Green Climate Fund (GCF). In the future, these SCF recommendations may evolve into a set of standards that are also relevant for the AIFC.

3. Summary

3.1 Convenience of select standards

The previous chapter provided an overview of selected standards that met four chosen criteria for "convenience", defined as "ease of adoption and use". These included:

- need to build own know-how and technical capacity for supporting the adoption
- need to build own know-how and technical capacity for enforcing the standard
- ability to adopt a named standard unilaterally
- need for supporting third-party service providers for enforcing the standard
- the likelihood of the standard being relevant[34] and broadly recognised also in the future

All the standards presented in the report broadly met the criteria and should be seen as relevant options for adoption by the AIFC, assuming that some of the standards fall under the scope of AIFC's operations.

[32] http://www.oecd.org/env/researchcollaborative/

[33] http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2016_ba_summary_and_recommendations.pdf

[34] The relevance of a standard is loosely assumed to depend on it being broadly recognized and deemed relevant also in the future e.g. under the Paris Agreement.

	AIFC need own know-how for standard adoption	AIFC need own know-how for enforcement	Ability to adopt the standard unilaterally	Support third-party service providers for enforcing the standar	Relevance of standard and recognised in the future
Task Force on Climate-related Disclosures	Obligation on Financial Institutions (FIs)	Yes, not mandatory	Yes	No	Yes
EBRD E&S Risk management	Obligation on FIs	No, if reporting to EBRD	Yes (not reporting)	No	Yes
Climate Disclosure Standards Board	Obligation on FIs	Yes, not mandatory	Yes	No	Unclear (meta standard)
MDB Common Principles	Yes or obligation on FIs	No	Yes	No	Yes
Equator Principles	Yes or obligation on FIs	No	No, membership	No	Yes
Green Bond Principles	Yes or obligation on FIs	No	Yes	Yes (second opinion)	Yes (new market)
IFI Greenhouse Gas Accounting standard	Obligation on FIs	Yes, not mandatory	Yes	Yes (GHG accounting)	Yes
Climate Bonds Standard	Yes, or obligation on FIs	No	No (certification)	Yes (certifcation)	Yes (new market)
PRI	Obligation on FIs	No	No (signatory)	No	Yes

Table 2. Summary of the convenience of implementing select green standards

Table **2** above provides an overview on how the different standards were judged to meet the criteria for convenience of adoption. The standards were initially selected on the account that they should broadly meet the set criteria, so the main purpose of the table is to highlight select differences between standards.

Under the first criterion, all standards allow for the adoption of the standard without AIFC having the need to first build own know-how and technical capacity for the standard. This means that the obligation under the standard relates to the underlying financial institutions, unless AIFC would have an active own role in the specific form financing (e.g. as a provider of project finance or issuing green bonds). If AIFC is actively involved as a financial institution, it would need to build own technical capacity for the adoption of the standard.

Under the second criterion, the need for AIFC to enforce a standard depends on the role of AIFC and how the standard is enforced generally. For certain standards, such as disclosure and reporting under the Task Force on Climate-related Disclosures and the CDSB, AIFC could (but does not have to) act as an enforcing agent if that was within its futute mandate. For other standards, the enforcement in the standard comes through the market place (e.g. reporting to EBRD, or under the Equator Principles, certifying under the Climate Bond Standard). All identified standards are indirectly enforced by the market place and market stakeholders even without active participation by the AIFC.

The third criterion looks at whether the standard can be adopted unilaterally without the involvement of the main body behind the standard. Many of the standards are made up by one or several public documents and can thus be adopted by any user as a public reference. All standards are publicly available. However, for certain standards, the full adoption of the standard, and related infrastructure for e.g. reporting, is not possible without membership (Equator Principles, Climate Bonds Standard, PRI) or being a recognized financial intermediary (EBRD).

The fourth criteria of convenience looked at the need for AIFC to provide support for third-party service providers in order to ensure that enforcement of the standard was made possible. The need to build third-party capacity makes adoption conditional on such services being available. For most of the reviewed standards, third-party support is not necessarily required as the implementation of the standard can be done by the financial institution itself. However, third-party service providers can still support the adoption of the standard by e.g. providing technical expertise for financial intermediaries. Both green bond standards require third-party services in the form of second opinions (GBP) and verification (CBI), however such services could be also acquired from international service providers through the standard organisations. The implementation of the IFI GHG accounting standard could potentially also require external expertise for GHG emission estimation under the standard.

All the standards chosen to be included in the review are deemed to be relevant in terms of the number of users, the weight of the issuing organisation and the long-term importance of the standard. The long-term relevance of process-oriented standards, such as the CDSB and the recommendations by the Task Force for Climate-related Disclosures, depends on how well they adapt to changes in underlying technical standards and the political weight behind the standard. Given the endorsement of the G20 and the Financial Stability Board, it can be expected that the disclosure recommendations by the Task Force will become a defacto standard for pushing climate disclosure into mainstream financial filings.

3.2 Selecting appropriate standards

Given the increased focus by regulators and investors on disclosure on climate-related risk, there is an emphasis on the process of disclosure in many standards. These standards focus on determining and operationalizing a climate-risk disclosure and management process in various types of organisations. There are several disclosure frameworks for investors and asset managers including e.g.:

- *The Portfolio Decarbonizing Coalition*[35], an institutional investor coalition working on capital reallocation as a risk mitigation tool by withdrawing capital from carbon-intensive companies, projects and technologies.
- *The Montreal Carbon Pledge*[36], a coalition of institutional investors and asset managers committing to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis.
- *Asset Disclosure Project*[37], an initiative to assess the climate risks and opportunities and management practices of the world's 1000 largest asset owners.
- *Carbon Disclosure Project*[38], the largest global environmental disclosure system (water, forest and climate), covering over 5500 companies.

It is important to note that disclosure frameworks typically rely in some part on separate technical standards that are focused on measuring impacts. The key technical standards, underpinning the emissions and emission reduction calculations in most green standards are the e.g. GHG Protocol[39], the ISO 14064 standards[40] for greenhouse gas accounting and verification, UN emission reduction

[35] http://unepfi.org/pdc/about/

[36] http://montrealpledge.org/

[37] http://aodproject.net/about-us/our-objectives/

[38] https://www.cdp.net/en

[39] http://www.ghgprotocol.org/

[40] http://www.iso.org/iso/home/store/catalogue_tc/catalogue_detail.htm?csnumber=38381

methodologies under the Clean Development Mechanism[41] and corporate emissions and emission reduction methodologies used in emissions trading systems such as the EU ETS or California.

The difference between a process-standard and a technical standard is an important feature when considering the adoption of different green standards. Same consideration should also be given to the relationship between some of the "meta" standards and reporting standards.This relationship was exemplified in the way that the Task Force recommendations on climate disclosure used the existing practices of several key reporting frameworks, such as the G20/OECD Principles of Corporate Governance and the Global Reporting Initiative G4 Sustainability Reporting Guidelines. In a similar fashion, the CDSB references a number of underlying technical standards and reporting frameworks. The adoption of such such over-arching standards has the benefit of providing flexibility in the choice of used technical standards, but also comes with the disadvantage that the organisation adopting the standards must be able to differentiate and choose between the standards underlying the "meta" standard.

Naturally, the key determinant for AIFC for choosing a standard should be the scope of its mandate in green finance and the related focus area(s) in the financial industry. Section 1.3 provided a matrix for categorising the different standards on the basis of the financial segment they target and the type of standars that they represent. The purpose of this matrix is to illustrate that standards have different purposes and that they serve different segments of the financial industry.

Table 3 provides an overview of this categorization. The table shows that the IFI GHG Accounting Standard (project finance and investments) and Climate Bonds Standard (debt capital) represent a type of standard that allows the user to measure or determine the quality or quantity of an underlying investment. The EBRD E&S Framework also includes guidance e.g. on detremining the quantity of emissions of investment projects. The second category of standards focus on definitions for tracking climate finance or reporting on specific green financial flows such as project finance (Equator Principles or Green Bond Principles). Disclosure standards, as discussed above focus on the provision of climate risks and opportunities for regulators, investors and other stakeholders.

Table 3 also well illustrates the diversity of approaches that AIFC could take in adopting one or several green standards in line with its future mandate. In addition to the convenience of adoption, AIFC needs to understand how green standards are linked to each other, how they relate to national and international GHG accounting frameworks and what type of green financing green standards can unlock or promote. For instance, adoption of green bond standards promote the emerging green bond markets wherease alignment with the MDBs' standards promote access to MDB funding. GHG accounting standards are precursor for results-based climate finance where verified results (emission reductions) are used to access financing. The Green Climate Fund is one potential future source of results-based climate finance. The choice of green standards is thus also linked to the targeted sources of international funding for the Green Economy Concept.

Whatever standards are chosen, they should be relevant for the activities in question, make use of and contribute to international best practice and promote the principles of transparency, accuracy, completeness, consistency and comparability. Disaggregation of data and provision of details on underlying assumptions, definitions and methodologies can promote the quality of reporting and facilitate the incorporation of changes in green standards as they evolve over time. Currently, the principles and approaches developed by MDBs are arguably the best proxy for what UNFCCC standards may look line in the future. The adoption of best practice as a frontrunner is generally a wise strategy in an area such as green finance where the standards are likely to become stricter and mandatory over time.

[41] http://cdm.unfccc.int/

Financial segment / Green Standard Type	Whole Financial Institution		Project Finance and investments	Asset management	Debt capital
Measuring quality or quantity		EBRD E&S framework	IFI GHG accounting standard		Climate Bonds Standards
Finance tracking and reporting standard	MDB common principles		Equator Principles		Green Bond Principles
Disclosure standards	FSB Disclosure Framework, CDSB			PRI	

Table 3. Categorization of selected green standards

3.3 Other factors for selecting green standards

The process for selecting appropriate green standards should also take into consideration other factors that influence the decision. An analysis of the factor of "convenience" raised in Chapter 3.2 can be complemented with a review of more general factors that influence the decision to introduce a green standard. The relevance of these factors is dependent on the specific situation in which a standard would be adopted; the sectors and the financial institutions involved, the source of stakeholder pressure and the motivation of the regulator. Some key decision factors are listed in Table below.

Decision factor	Example key decision point	Description
Aim and objective of green standard	Define the primary objective of the green standard e.g. disclosure, tracking or impact measurement.	Green standards have different purposes depending on the underlying objective of the standard. Voluntary and regulatory *disclosure* standards typically aim to minimize uncertainty around financial assets by enforcing disclosure on climate risks (or other environmental risks) that could impact the value of the asset. Disclosure standards serve a range of stakeholders such as regulators, investors, lenders, insurers, NGOs in their attempts to evaluate an asset's financial and physical (where relevant) exposure to climate risk. Green standards focused on *tracking* aim to ensure that capital is channelled to green assets per agreed green definitions and that capital flows to those asset classes are tracked and reported on. Disclosure and tracking standards can be combined with impact measurement standards. These standards are used to measure, either by ex-ante estimation or ex-post calculation the environmental impact of green financing (e.g. amount of GHG reductions, saved energy etc). Impact measurement is the basis for results-based finance where green financing is contingent on measurement and reporting of achieved environmental savings.
Targeted sectors	Some green standards are applicable for any financial institution, others target specific segments of the financial industry such as e.g. asset management or insurance.	The relevance of a green standard depends on its applicability in the financial sector. Some standards can be broadly applied (e.g. voluntary disclosure standards), whereas others are designed for a specific sub-sector in the financial industry. Therefore it is important to define the sectors within the financial industry that should be covered by a specific standard or an objective. Examples of sector, or asset specific standards are provided in the chapter above and include e.g. Equator Principles and Climate Bond Standards.

Sector stakeholders	Is the standard serving a particular group of stakeholders? Who are the relevant stakeholders?	Some green standards have emerged as a result of strong stakeholder pressure where investor groups (such as e.g. Institutional Investors Group on Climate Change and Portfolio Decarbonization Coalition) have pushed climate disclosure standards into the reporting practices of asset managers and corporations. Understanding the stakeholder groups and their priority areas is of importance when deciding on what green standards to adopt.
Sector motivation	What is the underlying risk/opportunity that the sector wants to manage?	Climate risks and opportunities vary significantly across different sectors and thus also across the financial industry servicing different sectors of the economy. The motivation to put in place a green standard is in part driven by an underlying risk or opportunity that an industry or the supporting financial industry wants to manage. Risks vary from physical risk (risks to physical assets) to liability risk (increased liability of impacts over time) to direct financial risk (e.g. asset devaluation). The selection of a green standard should be based on an understanding of what types of risks and opportunities the financial sector wants to understand or manage. For instance, the insurance sector likely has a larger interest in physical asset risk and an asset manager in asset devaluation risk.

Table 4. Key decision points for choosing a green standard

In addition to the above factors the introduction of a green standard should also take into consideration the time and effort to put in place the standard. This effort is in a large part dependent on the documentation that is required to implement the standard, required external approvals for the stadard to be adopted (e.g. from the standard's governing body) and the need to build specific third-party capacity for operationalizing the standard (e.g. monitoring and verification service providers, third-party opinions).