



# ASSESSING THE CLIMATE CONSISTENCY OF FINANCE

Taking stock of methodologies and their links to climate mitigation policy objectives



Article 2.1c of the Paris Agreement contributed to the development of the concept of climate alignment of finance to assess progress toward climate goals.

## Growing landscape of finance initiatives supporting net zero GHGs

Classifying initiatives to clarify their purpose and role

Coalitions    Frameworks    Methodologies

**Climate-alignment assessment methodologies** provide a detailed approach for calculating the degree of alignment or misalignment of a financial asset with the Paris Agreement.

Methodological choices across 4 dimensions:

- ① Asset class coverage
- ② Choice of emissions performance metrics
- ③ Selection of climate mitigation scenarios
- ④ Portfolio aggregation approach

## Need for a more comprehensive asset class coverage

### Coverage of alignment methodologies

● Covered    ● Developing    ● Underdeveloped



## Methodologies agree on high level of misalignment, but different perspectives lead to different alignment metrics and climate ratings

Company	Provider 1	Provider 2	Provider 3	Provider 5	Provider 4
Company A	Not aligned	Not aligned	Not available	2 Degrees	Not aligned
Company B	Not aligned	Not aligned	1.5 Degrees	Not aligned	Not aligned
Company C	Not aligned	Not aligned	Not aligned	Not aligned	2 Degrees
Company D	1.5 Degrees	2 Degrees	Not aligned	Not aligned	Not aligned
Company E	1.5 Degrees	2 Degrees	Not aligned	Not aligned	Not aligned
Company G	1.5 Degrees	2 Degrees	Not aligned	Not aligned	Not aligned
Company F	Not aligned	1.5 Degrees	Not aligned	Not aligned	Not aligned
Company H	Not aligned	Not available	Not available	Not aligned	Not aligned
Company I	Not aligned	1.5 Degrees	Not available	Not aligned	Not available
Company J	Not aligned	2 Degrees	Not available	2 Degrees	Not available
Company K	Not aligned	Not aligned	Not available	2 Degrees	Not aligned
Company L	Not aligned	2 Degrees	Not aligned	Not aligned	Not aligned
Company M	Not aligned	Not available	Not available	Not available	Not aligned
Company N	Not aligned	Not available	Not aligned	Not aligned	Not aligned
Company O	Not aligned	Not available	Not aligned	Not aligned	Not aligned
Company P	Not aligned	2 Degrees	Not available	Not available	2 Degrees
Company Q	2 Degrees	2 Degrees	Not available	Not aligned	Not aligned
Company R	Not aligned	Not aligned	Not available	Not aligned	Not aligned
Company S	Not available	Not aligned	Not available	Not available	Not aligned
Company T	Not aligned	2 Degrees	Not available	Not aligned	Not aligned
Company U	Not aligned	Not aligned	Not available	Not aligned	Not available
Company V	2 Degrees	Not aligned	2 Degrees	Not available	Not aligned
Company W	Not aligned	1.5 Degrees	Not aligned	Not available	2 Degrees
Company X	2 Degrees	Not aligned	Not aligned	Not available	Not aligned

### Selected methodological challenges:

- No agreed approach to disaggregate Paris Agreement temperature goal and downscale scenarios
- Temporal coverage is a strong driver of rating variations
- Lack of clarity and data on use of offsets
- Limited number of scenario sources

### Policy recommendations to support improved climate alignment assessment methodologies:

1. Support further development of methodologies for a broader range of financial asset classes and for aggregation approaches for portfolio assessments
2. Provide clear guidance on the use of offsets
3. Develop scenarios and reference points that are more relevant for the use in the corporate and financial sector analysis
4. Encourage communication of assumptions within assessments, such as scenario likelihoods of reaching a certain temperature goal
5. Use a range of complementary metrics for a comprehensive view of alignment