Second G20 Sustainable Finance Working Group (SFWG) Meeting

18 June 2021

Co-Chairs' Summary

Introduction

On 18 June 2021, the SFWG met for the first time since its upgrade to a Working Group, following the agreement by G20 Ministers and Governors on April 7th.

The Italian Presidency opened the meeting by thanking all Members for their support in finalising the Terms of Reference of the SFWG. The Presidency then provided a brief update on the progress made since the April update of the G20 Action Plan, which introduces a specific Pillar dedicated to Protecting the Planet, and highlights three domains where G20 Members should coordinate their efforts: policies for a green recovery, sustainable finance and supporting the transition in developing countries. Finance Track working groups followed up on these commitments. The IWG continued its work to promote investment on sustainable infrastructure. The FWG discussed how to assess macroeconomic risks arising from climate change and how to better integrate such analysis into G20 policy discussions. The Presidency recalled the recent steps undertaken by the SFWG: (i) after the first meeting, all members provided input on roadmap priorities. (ii) Secretariat, Co-chairs and Presidency engaged with many knowledge partners, who are now developing input papers. (iii) Two events were held to get inputs on 2021 agenda and roadmap: a Roundtable with private sector and a workshop with IOs. Finally, the Presidency provided some details on the Venice International Conference on Climate (11 July). An extraordinary meeting of the Finance Deputies will take place on 23 June, to provide an update on the preparation of the Conference and discuss how this could enrich future G20 policy discussions.

Recognizing the request from members to drive a transparent and collaborative process, the Co-chairs updated the group on the Sustainable Finance Private Sector Roundtable and on the first of three Roadmap Workshops. The Private Sector Roundtable was held on May 17th and 18th with participation of more than 650 unique attendees, including SFWG members, G20 Engagement groups, non-G20 members and private sector. The Roadmap Workshop was held on May 25th with the purpose of presenting the notional roadmap structure to International Organizations and Knowledge Partners members of the SFWG.

The co-chairs summarized the main takeaways from the roundtable as: 1) A growing consensus on the diversity and lack of consistent tools and approaches to identify, verify and align investments to sustainability goals and manage climate risks, especially those to finance transition activities as a major barrier to expansion of sustainable finance market, 2) A necessary convergence of existing disclosure requirements, sustainable finance taxonomies, and ESG rating methodologies in order to overcome the fragmented landscape, enhance transparency and reduce transaction costs, 3) The need to broaden the discussion of this Working Group beyond the initial focus of climate to include nature, biodiversity, and wider aspects of ESG over time, 4) A strong need to increase technology, especially fintech tools to address data alignment issues, 5) A highlighted importance of the role of IFIs, public policies and other incentives, including fiscal policies and carbon trading mechanisms, to develop low-carbon inclusive transition pathways as a mean to recover better together.

The inputs from international organizations and knowledge partners during the Roadmap Workshop helped inform the development of the Interim Roadmap Report that was presented by the Co-chairs to SFWG members.

The meeting was divided into two main sessions. The first session provided an opportunity for knowledge partners to present their work on the three technical areas of work identified for 2021, and the second session discussed the structure and content of the G20 Sustainable Finance Roadmap.

Presentations from Knowledge Partners

The Chinese co-chair provided opening comments for the session on improving sustainability related information. During this session, knowledge partners (IOSCO, IFRS, GSGII, OECD, UNEP and ICC) noted the importance of building on existing principles, frameworks and standards, including TCFD, to identify what sustainability information is needed by investors and other stakeholders in the development of a global set of sustainability reporting indicators. The IFRS presented their initial plan for developing an initially climate-focused sustainability reporting standard, which would incorporate existing work done by the TCFD and other sustainability reporting organizations. Over time, this framework could expand to include more SDG goals in addition to climate over the medium term. This standard will also be based on building blocks to allow different jurisdictions to consider local circumstances for disclosure and allow entities with different capacities to report most relevant information, while maintaining the overall comparability and interoperability across different markets.

Knowledge partners also noted that as nature-related risk may affect financial institutions, the G20 should start exploring this, and recommended endorsing the work of the Taskforce on Nature-related Financial Disclosures (TNFD) as well as requesting closer coordination with the FSB and IFRS. The complexity and burden of major reporting standards relative to in-house MSME resources and the absence of clear business case for them to produce sustainability reports was also mentioned. Despite these constraints, there was also broad recognition that in order to scale-up sustainability linked loans and further aligned financing to sustainability goals, sustainability data –public and/or private- from SME's would need to be leveraged. Finally, the international organizations highlighted the importance of harnessing the advancement of technology to leverage ESG metrics adoption and overcome data challenges.

On the topic of 'approaches and tools to identify, verify and align investments to sustainability goals' knowledge partners (i.e., IPSF and UN DESA) categorized them in different building blocks according to whether the different approaches and tools aimed to provide: 1) Definitional frameworks of sustainable investment, 2) information on the underlying investable asset and/or activities (e.g., taxonomies) and/or 3) information at an investment product level (e.g., label/certification of investment products, portfolio alignment benchmarks). The different characteristics of the identified building blocks and implementation hurdles for consistent investment approaches were also described. Moving ahead, they proposed to develop a set of high-level principles and recommendations for globally consistent and comparable approaches to identify and label sustainable investments. The International Capital Markets Association (ICMA), a Contributing Partner to this topic, provided remarks on the perspective of market participants, noting the need for compatibility across different market approaches, and a greater focus on transition pathways and dynamic approaches that are more reflective of the pace of market innovation.

On the topic of International Financial Institutions' role in supporting the Paris Agreement, the Asian Development Bank (ADB) took the floor on behalf of the Multilateral Development Banks (MDBs) to talk about their approach to align their work with the Paris Agreement. The MDBs continue to support their client countries in climate actions linked to the countries' development goals. The MDBs approach is based on six building blocks: 1) alignment with the mitigation goals of the Paris agreement, 2) adaptation and climate resilient operations, 3) accelerated contribution to transitions through climate finance, 4) Strategy, Engagement & Policy Development, 5) reporting on their alignment with their climate commitments, and finally 6) alignment of their internal operations with climate commitments including operations and travel. The MDBs conclusion mentioned three main challenges for their work in sustainable finance which are 1) data information gaps needed to align their activities, 2) additional financing needed to upstream support in countries, and 3) mobilizing and alignment of the private sector, mainly through their third-party lending activities.

SFWG Member Discussion

The floor was then opened to a discussion. This summary does not seek to present a consensus view, but summarises diverse views expressed by members during the meeting.

<u>Sustainability reporting and disclosure</u>

Members generally share a common concern over the fragmentation of existing disclosure requirements and the tools to identify, verify and align investments to sustainability goals and highlighted the need for interoperability. There was broad recognition to the ongoing work by IOSCO and the IFRS Foundation Trustees and on the need to develop a global baseline standard for sustainability reporting focusing on enterprise value in order to conduct effective risk assessment and vulnerabilities analysis and inform investor decisions. It was referenced that this baseline should be consistent with the SDGs, adopt a do-not-harm principle, and consider climate issues this year but flexible enough to include other sustainability issues in the future.

Members suggested that the process for developing sustainability reporting standards should be transparent and inclusive while responding to the needs of market participants. A few members also raised the possibility of implementing the reporting standard through a phased approach, while others noted the urgency to move quickly.

Members encouraged this baseline to be built on common metrics and methodologies to facilitate compatibility of data. Some members pointed out the role and the shape of forward-looking information with respect to backward-looking ones, while others highlighted the importance of interoperability between a global baseline standard and jurisdiction specific disclosure requirements that reflect jurisdiction-level public policy priorities. Several members welcomed the work of the Taskforce on Nature-related Financial Disclosures (TNFD), and many recognized the importance of leveraging digital technologies to facilitate improved sustainability reporting.

Many members mentioned that addressing the particularities of middle-income countries and emerging economies -taking also into account regional disparities - would be critical to ensure the adoption of global sustainability reporting standards and the uptake of tools to identify, verify and align investments to sustainability goals.

<u>Identifying and verifying climate-aligned investments</u>

There was broad agreement on the importance of addressing transition finance to develop sustainable finance markets, ensuring inclusive transition pathways particularly in developing economies. Some members voiced support for a combined official and private sector initiative on transition finance, noting that a bottom-up approach will be important in achieving the climate transition. Members noted the importance of interoperability across approaches to identifying climate-aligned investments and recognized the risks of fragmentation, while also pointing to the value of a diversity of approaches to better meet the needs of different jurisdictions and market participants. Some voiced a need to include forward-looking data more fully into approaches to identifying climate-aligned investments.

MDB Paris Alignment

Members agreed on the importance of the role of the MDBs and IFIs in assisting developing countries in designing tailored green growth policies, while considering the different levels of development of the country and the maturity of its markets. Additionally, required is to foster the engagement of the private sector through providing more financial resources and technical assistance for the transition, while maintaining their goals of ending poverty which increased due to the COVID crisis.

G20 Sustainable Finance Roadmap

The second session was opened by the US Co-chair who gave an overview of the notional roadmap structure and recognized that the FSB roadmap should be appropriately reflected in the G20 roadmap as they are complementary to each other. The FSB intervention stressed the complementarity between the two roadmaps and detailed how they will dovetail together to provide coordinated vision and impetus.

The presentation from the OECD covered the challenges of ESG investing including differences in metrics and approaches, and inadequate transparency over methodologies, which among other things can undermine market integrity and hinder further alignment with sustainability goals. It stressed the need for interoperability of common tools, frameworks, definitions and verification processes to help shape the resilience of interconnected financial markets across advanced and emerging market economies in a way that is flexible and productive.

The remarks by the NGFS highlighted the role of the G20 Sustainable Finance Roadmap in bringing together and mapping the very large number of initiatives currently ongoing toward fostering the development of finance that is more in line with contributing to sustainable development. It also emphasized the need for the Roadmap to balance the need for exploratory work, and the development of recommendations and policies that would initiate and amplify actual climate actions and highlighted Focus Area 4 (Leverage public finance and incentives) as the cornerstone and precondition for other actions and focus areas.

The remarks by the Coalition of Finance Ministers on Climate Action focused on how the current work from the Coalition could help inform the Roadmap as it is developed, particularly noting the work done on countries sustainable finance roadmaps (Helsinki Principle 5), green budgeting (Helsinki Principle 4) and carbon taxation and emission trading systems (Helsinki Principle 3).

Members welcomed the flexible structure of the roadmap and its four focus areas, as well as the stocktake of international work. Several members recalled the importance of avoiding duplication with other international efforts and discussed how to integrate the FSB roadmap to the G20 Sustainable Finance roadmap. Some members suggested the roadmap needed to set out clearer and more ambitious goals, state more concrete steps, include a clear, multi-year timeline, and –refine on how on-going work could eventually translate into actual policy development recommendation. Other members mentioned that the roadmap be less prescriptive and more oriented to the analysis of possible impact of proposed policy options. as well as what the SFWG itself could progress over the next few years, with the aim of producing recommendations for G20 endorsement.

Many members reiterated the initial focus on climate but encouraged the flexibility to accommodate a broader range of sustainability issues, in particular the work on biodiversity and nature. However, members had different views on the timing of this inclusion with concerns that if the scope was widened early on, it would risk the necessary momentum on climate finance. Several members strongly urged the roadmap to prioritize transition finance and address its associated challenges as an explicit goal, considering its importance in achieving lower emissions economies.

Members agreed that developing countries needed concessional finance as well as technical assistance in certain developmental sectors for achieving the SDGs. Capacity building was mentioned by a few members as a possible additional cross-cutting area. Technology was recognized as an area of importance, especially due to its catalytic role for green financial innovation and capital mobilization. It was proposed that the roadmap highlight the transformational impact of that technology to report better and improve quality of information. There was also a broad agreement on the fact that the roadmap should consider national and regional circumstances, especially the characteristics of developing countries in designing actions in each building block.

However, there were different views among members on whether to discuss a double materiality approach and to include fiscal policy in the roadmap. In its concluding remarks, the China co-chair suggested to tackle fiscal policies to the extent that they have an impact on financial decision making.

Members raised a number of additional points, including the need to better capture the FWG work on macroeconomic risks, potential engagement to phase-out fossil subsidies, integration of ESG risk into sovereign ratings, the introduction of cross-border carbon taxation, the exploration of a set of scenarios for capturing both fiscal and transition risks generated from climate change, as well as potential risks stemming from non-coordinated mitigation policies.

The co-chairs and Italy G20 Presidency concluded the meeting by asking for written comments on the roadmap from SFWG members by June 25th. With a view to ensuring an inclusive and participatory process, a new draft will be shared in advance to the next SFWG meeting, which will be held on July 27th.