FRANCE

Association française de normalisation (AFNOR)

Investing in climate action with ISO 14097

Overview

Many financing or investment activities will either have an impact on climate change or be affected by it. This dual impact is known as *double materiality*: climate change affects the value of a company while a company's activities can impact the climate by reducing greenhouse gas (GHG) emissions in the real economy. This in turn reduces a company's vulnerability to the impacts of climate change, increasing its resilience. The project carried out by AFNOR, France's national standards body, looked at the use of ISO 14097 as a means of responding to the pressing need for a robust, harmonized framework for disclosures on climate-related risks.

To achieve the goals of the 2015 Paris Agreement and maintain stability in the financial system, the world needs to transition to a low-carbon, climate-resilient economy. This transition requires a vast reallocation of investee capital, ranging from high-carbon to low-carbon assets, assets with negative emissions and assets that are resilient in the short, medium and long term.

In addition to financing an already decarbonized or low-carbon activity (e.g. in the area of renewable energies), it is also important to finance the decarbonization of GHG-emitting sectors as a part of a climate finance scheme that contributes to climate change mitigation. Financing the transition to a low-carbon climate should be seen as a way of financing businesses that are on the path to achieving the Paris Agreement reduction targets.

As green investments expand across borders, transition pathways aligned on the Paris Agreement can differ from region to region and from country to country, depending on the industrial structure and/or role played by each in the global value chain. Therefore, "financing for a transition" should take an inclusive and flexible approach that can be adapted to the particular circumstances of each country or region without excluding specific sectors, industries or technologies from its scope.

Financiers play a key role in this transformation because their every-day decisions can influence the behaviour of investees (companies, clients and borrowers) in the real economy. Their influence covers capital and research & development expenditure plans, the decision to retire (or not) high-carbon assets, as well as other aspects of corporate strategy. Moreover, because they simultaneously wear the hats of creditor, financial advisor and asset manager, financiers have a broad influence over their clients' investments. For this reason, a financier's day-to-day decisions can have both positive and negative consequences on climate goals.

Most financiers manage their assets without any specific objective or climate-related strategy. Their decisions and actions can therefore affect investees that have an impact on the climate and expose them to climate-related risks. Any resulting effects, which may be deemed unintentional, can have positive or negative consequences for both the climate and the financiers' assets. This category of financiers is referred to as "financiers *without* climate objectives".

In contrast, some financiers explicitly support climate goals by defining clear objectives or specific strategies related to climate action; this category is referred to as "financiers *with* climate objectives". These financiers influence investees through climate actions that enhance climate change mitigation or adaptation, including but not limited to:

- Using voting rights associated with share ownership
- Using their influencing power as creditors
- Setting conditionality associated with lending or security issuance
- Making preferential financing available for targeted activities that face a financing gap
- Conducting policy advocacy

The active role of the financial industry in supporting international efforts for climate action is acknowledged in Article 2.1c of the Paris Agreement and borne out by the following (non-exhaustive) list of organizations and initiatives:

- United Nations Environment Programme (UNEP) Inquiry
- Non-State Actors Zone for Climate Action (NAZCA), an online portal hosted by the United Nations Framework Convention on Climate Change (UNFCCC)
- Organisation for Economic Co-operation and Development (OECD)
- G20 (Green Finance Study Group)
- European Commission, through its publications:
    - *Action Plan on Financing Sustainable Growth* (2018)
    - *Guidelines on Reporting Climate-related Information* (2019)
    - *Non-Financial Reporting Directive* (2014)
    - *Non-Binding Guidelines on Non-Financial Reporting* (2017)
- Network for Greening the Financial System (NGFS)
- UN Principles for Responsible Banking
- UN-convened Net-Zero Asset Owner Alliance

Outcomes and benefits

In this context, ISO 14097, *Greenhouse gas management and related activities – Framework including principles and requirements for assessing and reporting investments and financing activities related to climate change*, provides principles, requirements and guidance to define, monitor, assess and report on the actions of financial institutions as they relate to climate change and contribute to achieving the Paris Agreement climate goals. The framework can be applied both by financiers *with* or *without* climate objectives.

The standard helps financiers assess and report on their actions and see the real value of their contribution to the climate goals. It enables them to:

- Establish a climate strategy and plan to achieve its climate objectives
- Identify climate actions that support the achievement of their objectives
- Identify, assess and manage exposure to climate-change-related risks and opportunities
- Be recognized by making an evidence-based claim about their mitigation/adaptation impact in the economy

Possible use cases include measuring the impacts of financiers' actions related to initiatives such as Climate Action 100+ and assessing the option of replacing Board members with directors amenable to climate action.

Potential impacts and benefits of ISO 14097

	Impacts	Examples of organizations or companies that could be interested
Financiers	Financial institutions will be able to assess, set targets and communicate on climate actions. Financiers can use the standard to measure the impact of their corporate engagements.	In the context of the PRI Montreal Pledge, the UNEP Portfolio Decarbonization Coalition and the UNFCCC NAZCA platform, more than 440 financial institutions are committed to reporting on climate and/or set targets. Financiers involved in the Climate Action 100+ can use the standard to measure the impact of their corporate engagement.
Corporates	Corporates will know what the expectations of their shareholders are in relation to measurement and reporting of climate action impacts.	Where shareholders can successfully file a motion requesting the inclusion of climate-sensitive Board members on the Board of directors, the impact can be measured.

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Government	Policy makers will be able to develop mandatory disclosure requirements, negotiate commitments with private financial institutions, and set targets for public financial institutions.	The governments of France, Switzerland, Sweden and California (USA) have already initiated actions in this direction. There are more and more voices advocating mandatory disclosure of exposure to climate-related risks and benefits. UNEP FI supports the setting and communication of voluntary targets.
Academic and research bodies	Researchers will be able to assess the consistency of financial markets with climate goals and related risks for financial stability.	Climate Policy Initiative, Germanwatch, WRI, Frankfurt School of Finance, University of Zurich.
Non-governmental organizations	Civil society will be able to track the climate performance of the finance sector.	Banktrack, RAN, CAN, WWF, Greenpeace, Ceres/INCR, etc.

Partners involved

Requesting organization:

- Association française de normalisation (AFNOR)

Supporting organization:

- United Nations Framework Convention on Climate Change (UNFCCC)

Timeline

ISO 14097 was developed over 48 months and published in May 2021.