

NEWS

Carney lays down investor portfolio alignment metric challenge

BY [SUSANNA RUST](#) 9 NOVEMBER 2020

Mark Carney, the United Nations special envoy for climate action and finance and the UK prime minister's finance adviser for COP26, has called on investors to use the months leading up to the UN climate change summit in Glasgow to agree on a measure of portfolio alignment with climate targets.

He was speaking on the opening day of the Green Horizon Summit, broadcast from London, outlining in greater detail [the private finance strategy for COP26](#), the postponed UN climate change conference that will now be hosted by the UK and Italy next year.

Under the heading of the "returns" pillar of the strategy, Carney said investors should disclose how closely their portfolios were aligned with the transition to net-zero but that existing climate-related metrics were not "best suited to measuring a whole economy transition".

"Carbon footprints and CO2 emissions per dollar invested aren't forward-looking," Carney said. "ESG metrics are inconsistent, poorly correlated, and their 'E' is not benchmarked to net zero.

"And taxonomies, while useful for measuring the percentage of assets invested in certain activities, capture only a small proportion of business activity, cannot chart progress through 50 shades of green and are not yet dynamic enough to account for new technology developments."

He pointed investors in the direction of a new report on measuring portfolio alignment that was published today by a private sector team led by David Blood, co-founder of Generation Investment Management.

“Over the next 12 months on the road to Glasgow, industry should use David’s report as a basis for a discussion on the most useful measurement of portfolio alignment,” Carney said.

“The challenge to the industry is to ‘make a material meaningful metric’ so that people can ‘make their money matter’”

Mark Carney, UN special envoy for climate action and finance and UK prime minister’s COP26 adviser

The [Generation-led report](#) considers a range of alignment measurement approaches, but focuses on a so-called “degree warming metric”, which shows a potential global temperature rise associated with the greenhouse gas emissions from a given company or portfolio.

The report comes as the Task Force on Climate-related Disclosures (TCFD) [last week launched a consultation on forward-looking climate metrics such as degree warming](#), also known as “implied temperature rise”, and as major investor groups such as the [UN Net-Zero Asset Owner Alliance](#) and the [Institutional Investors Group on Climate Change](#) consult on portfolio alignment-related approaches.

In his speech, Carney also noted that the issue of net-zero portfolio alignment measurement was relevant from the perspective of communicating with end-investors or beneficiaries.

“As you will hear from Richard Curtis later in the summit, investors will need transparent and readily understandable answers when their clients ask if their money is being invested in line with the transition to net zero,” said Carney.

“The challenge to the industry is to ‘make a material meaningful metric’ so that people can ‘make their money matter’.”

‘Make My Money Matter’ is the name of a campaign spearheaded by comedy scriptwriter Richard Curtis, co-founder of charity Comic Relief, to ensure UK pensions savings help build a better world.

‘Say on transition’

In a wide-ranging speech covering various “vehicles in the private finance caravan to Glasgow”, Carney also suggested public authorities consider introducing a “say on transition”, a standing advisory vote on companies’ energy transition plans at annual general meetings “just as they have on pay”.

“This would establish a critical link between responsibility, sustainability and accountability,” said Carney.

The vote on company transition plans has echoes of a call by Aviva Investors for an annual vote on company TCFD reporting, issued in the context of a Financial Conduct Authority (FCA) consultation on such disclosures by UK-listed issuers.

Also speaking at the Green Horizon Summit today, new FCA CEO Nikhil Rathi revealed that the regulator would be proceeding with introduction of the TCFD reporting rule on a comply-or-explain basis. He said the FCA would in the first half of next year review whether to expand the rule to a wider scope of listed issuers and consider making it mandatory.

Some investors [wanted to see the TCFD reporting rule introduced on a mandatory basis straight away.](#)

‘Make disclosures mandatory’

Carney used his speech to call on governments to make climate-related disclosures mandatory, saying the time had come for this approach.

“There are many pathways to mandatory climate-related reporting in Glasgow,” he added. “These pathways will be complementary if we agree the direction of travel.”

He called for the TCFD to be the starting point for any mandatory disclosure regime and for governments to “publish pathways”

showing which authorities in their respective jurisdictions will be responsible for implementing climate-related reporting rules, the sectors the rules would apply to and "the timeline to make it the law of the land".

He also called on governments to work with international standard-setters, in particular the IFRS Foundation. Citing the latter's [consultation on sustainability reporting standards](#), Carney said it was an "opportunity to shape the future of climate-related financial reporting and we would urge companies, financial firms and regulators to respond with their views".

The full COP26 private finance strategy document can be found [here](#).