Policy guidance on market practices to strengthen ESG investing and finance a climate transition

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While sustainable finance approaches are increasingly used by financial market participants, a number of challenges still undermine and hinder the efficient mobilisation of capital to support environmental, social and governance (ESG), and climate-related objectives. These challenges include limited transparency and comparability of climate transition and ESG methodologies and metrics. This document provides guidance for policy makers and market participants seeking to strengthen ESG investing and finance a climate transition through the use of quality metrics, ratings, targets and frameworks.

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Foreword

Sustainable finance, including the increasing array of related financial products, is attracting the attention of investors, policy makers, and civil society stakeholders because of its potential to deliver long-term enterprise value that aligns with societal values and contributes to sustainability and climate-related objectives.

Despite noteworthy progress, considerable challenges still hinder the potential for these approaches. Ultimately, such challenges could constrain the pace and scale of the capital allocation needed to achieve tangible progress to support long-term value and a transition to low-carbon economies. Therefore, policies should be considered to foster global interpretability and comparability of ESG approaches, as well as to strengthen the tools and methodologies that underpin disclosure, valuations, and scenario analysis in financial markets associated with a low-carbon transition.

This document outlines policy recommendations to support policy makers and market participants in strengthening ESG investing practices, and to support the financing of a climate transition in financial markets. The targeted audience for the policy guidance is policy makers and market participants looking to integrate ESG and climate-related considerations into their activities to contribute to better risk management and investment practices, and on broader efforts to support a low-carbon transition. Many central banks and financial authorities in OECD countries have mandates that allow them to pursue relevant recommendations, including on the transparency of relevant ESG and climate-related risks to support the financial sector to assess and manage such risks.

The policy recommendations in this document focus on areas within the purview of OECD Committee on Financial Markets Members. Additional work may be needed to further consider policy instruments beyond risk-based financial policies, such as carbon pricing, which will play a key role in the fight against climate change. It is also recognised that individual jurisdictions are at different stages of implementing some of the policies outlined within this document. This document therefore serves to support jurisdictions in moving forward with efforts to finance a transition to low-carbon activities and strengthen ESG investing within their mandates.

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Introduction

Forms of sustainable finance have grown rapidly in recent years, as a growing number of institutional investors and funds now incorporate various environmental, social and governance (ESG) factors into their investment strategies. The growth of sustainable finance, including the increasing array of financial products, has attracted the attention of investors, policy makers, and civil society stakeholders because of its potential to deliver long-term enterprise value, align with societal values, and contribute to sustainability and climate-related objectives. ESG products are also increasingly used as a tool to assess the alignment of financial institutions' and corporates' commitments and actions to support an orderly low-carbon transition.

While noteworthy progress has been made, considerable challenges hinder the efficient mobilisation of capital to support ESG and climate-related objectives. Greater comparability of climate transition methodologies, as well as transparency and interpretability of climate finance and ESG metrics are urgently needed. In response to the rapid growth of market practices with respect to ESG investing to assess and manage climate transition risks in financial markets, the OECD Committee on Financial Markets (CMF) has developed a substantive body of work that provides analysis on challenges with respect to current market practices, and proposes policy considerations to improve them. While this work welcomes recent progress through public policy and market initiatives, it finds that the lack of transparency, comparability, and poor quality of current climate transition and ESG investing practices result in market fragmentation, which undermines market integrity (OECD, 2021[1]). If left unaddressed, these challenges could erode the market confidence needed to ensure the sound and orderly transition to low-carbon activities within global financial markets.

The OECD is committed to supporting global action and progress to combat climate change, with the OECD Secretary General Mathias Cormann stressing that doing this *"will require better data, metrics and guidance to measure the financial sector's progress towards net-zero commitments in line with science-based targets."* The OECD 2021 Ministerial Council Meeting II statement also highlights OECD countries' support for the "analysis of how (ESG) risks are addressed across OECD work streams to foster integrated approaches to sustainable finance, including on principles for climate transition finance." The CMF is one of the bodies that has committed to developing policy recommendations with respect to ESG and climate transition finance, and to fostering integrated approaches across OECD bodies and policy communities.[1] To support this, the OECD's work on sustainable and climate-related finance contributes to international fora, such as G20, APEC, the Financial Stability Board (FSB) and Network for the Greening of the Financial System (NGFS) initiatives.

In this context, the policy recommendations bring together findings and policy considerations from CMF's multi-year body of work to strengthen ESG investing and finance a climate transition.[2] The policy recommendations serve as guidance for policy makers and market participants, with a series of ambitious good practices (Annex A) to strengthen the commitment to climate and sustainability-related objectives. In particular, they support policy makers in voluntarily engaging to strengthen ESG investing and climate transition practices, notably through the development of quality disclosures, metrics, ratings, targets and frameworks. Policy makers referenced throughout the guidance include central government entities, central banks, financial authorities (including supervisors and regulators) as well as standard-setting bodies and international organisations. Market participants referenced in this document include a range of

issuers, investors and intermediaries (such as banks, insurers, funds, brokers and specialised companies), as well as participants that conduct analysis and offer guidance to support capital markets, from ESG rating providers to stock exchanges. The policy recommendations will primarily serve to support the G20 Sustainable Finance Working Group (SFWG) in developing a framework on transition finance in 2022. They can also guide related policy developments in international fora, including the FSB, NGFS and APEC.

In addition, the policy recommendations can serve as a reference point for other OECD bodies that are updating existing international standards to incorporate sustainability considerations with respect to market practices. A number of the policy recommendations in the document, while having a focus on ensuring efficient market practices, can therefore contribute to broader discussions and work being conducted in other OECD bodies such as the Corporate Governance Committee and Working Party on Responsible Business Conduct. Where possible, reference is made to the review of OECD standards such as the G20/OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises.

Extensive efforts have also been made to engage with a wide range of market participants, so that the policy recommendations build on existing market practices without affecting market activities in unanticipated ways. This engagement, which has occurred through market roundtables with asset managers, strategists, portfolio managers, ESG rating agencies and index providers, has provided valuable insights on practical challenges and ways to improve consistency, comparability and decision-usefulness of information.

This guidance is separated into two pillars of policy recommendations:[3]

- **Pillar one** puts forward policy recommendations to improve the transparency and credibility of ESG rating methodologies and promote market integrity. OECD analysis finds that despite progress, ESG approaches suffer from considerable shortcomings with respect to consistency, comparability and quality of data and transparency of associated methodologies that undermine their broader use and the trust of investors (OECD, 2021[1]). In addition, greater clarity on the high-level purpose of elements in ESG ratings is warranted (OECD, 2022[2]). While some market participants may use elements of ESG ratings to support climate risk management, they also include information on issues such as environmental impact, human rights and corporate governance. Therefore, greater transparency on ESG rating methodologies should better support investment decisions based on a range of E, S and G considerations. Financial authorities (where consistent with their mandates), ESG rating providers, as well as other relevant market participants, should consider actions to strengthen ESG approaches and in turn reduce market fragmentation. To this end, policy recommendations within this pillar encourage global comparability and quality of ESG metrics and approaches, for example through mandatory disclosure; transparency of ESG rating methodologies to strengthen the high-level purpose of the E, S and G pillars as to the extent to which they align with long-term value and sustainability goals.
- **Pillar two** outlines policy recommendations to strengthen the tools, methodologies, and products for financial markets and intermediaries that support a low-carbon transition and climate-related objectives (including wider climate considerations that may include biodiversity and other areas in future). While there is evidence that financial markets are taking steps to facilitate a low-carbon transition, current estimates suggest that the global economy is not on track to limit CO^2 emissions to meet a temperature rise of less than 2°C. Therefore, as investors scale up the use of data, metrics, frameworks, and products related to climate transition, market efficiency and integrity are critical to ensure that these various elements serve their purpose and that capital is effectively allocated to support a low-carbon transition and financial stability. To support this, and where consistent with their mandates, policy makers can consider ways to strengthen the quality of climate-related data used by market participants, as well as develop mandatory disclosure requirements and improve climate transition plans and related market products. In addition, up to date and reputable science-based assessments and targets are needed to ensure that transition

plans and supporting material are credible in supporting markets in effectively allocating capital and managing climate-related risks.

The policy recommendations aim to serve as a contribution to the G20 Sustainable Finance Working Group, to support efforts towards the well-functioning and integrity of financial markets. As the work further develops, discussions on the operationalisation of the policy recommendations will take into account the perspectives of different policy communities, in line with their respective mandates, and to assess complementarities and practical overlap.

The policy recommendations as set out in this document are as follows:

1. Policy makers, financial authorities and central banks (where appropriate within domestic mandates) should strengthen the availability of reliable and quality ESG data and metrics in line with global baseline standards.
2. Financial authorities should identify and use the tools available to them to support greater transparency of ESG rating methodologies and oversight of ESG rating providers to ensure high quality and interpretable methodologies and outputs.
3. Policy makers and financial authorities should encourage transparency of ESG rating providers regarding the high-level purpose and use of individual E, S and G scores.
4. Policy makers, financial authorities, central banks and other relevant authorities should (where appropriate within domestic mandates) encourage transparency and comparability of climate-related factors in the environmental (E) pillar of ESG ratings, and encourage improved quality and integrity of metrics used by ESG rating providers to achieve climate-related objectives.
5. Policy makers, financial authorities and central banks (where appropriate within domestic mandates) should strengthen the availability and use of reliable, comparable and high-quality data to assess climate risks and opportunities in line with global baseline standards.
6. Where within their mandates, policy makers, financial authorities and central banks should support the consistent and transparent use of climate-related metrics by third-parties, in order to foster greater quality and comparability across jurisdictions and industries.
7. Where within their mandates, the relevant authorities should support the development of transition plans by financial intermediaries that include overall net-zero and interim targets that are supported by up-to-date and sound scientific methodologies consistent with the goals of the Paris Agreement.
8. Policy makers and market participants should collaborate within international fora to share good practices and continually strengthen the appropriate use of net-zero strategies and associated tools for financial firms who have made voluntary net-zero commitments, including by issuing guidance.
9. Financial authorities should use the mechanisms available to them to support high-quality data and the monitoring of such data, including interim targets, in transition plans, including through third-party verification of information.
10. Where consistent with domestic mandates, policy makers should use the tools available to them to guide good practices of market participants that wish to improve climate aligned investing and engagement strategies. This should include, but not be limited to, greater transparency of expectations, incentives and options for accountability where implementation falls short of firms' transition plans and targets over time, when within investor objectives.

These core recommendations are supported by a host of sub-recommendations and also good practices (Annex A) to guide implementation.

Pillar one: Policy recommendations to strengthen ESG rating and investing

ESG investing market practices have grown considerably in recent years, and they are becoming mainstream in many financial markets across OECD countries. While progress has been made through the development of a range of ESG ratings and investing products, work by the Committee on Financial Markets (CMF) since 2019 has found that ESG investing approaches (and the tools that support them) suffer from considerable shortcomings with respect to transparency, comparability and the quality of data, which could undermine their broader use and investor trust over time (OECD, 2020[3]).

First, ESG ratings often lack transparency as to the extent to which they measure current and forward-looking ESG-related factors relevant to investors and other market participants. They often fail to adequately disclose how the ratings are calculated and which metrics they daw from in their construction. This raises questions as to the extent to which investors have sufficient information to make informed decisions that contributes to long-term value (OECD, 2021[1]). Therefore, policies are needed to ensure global transparency, comparability and quality of a potentially core set of ESG metrics, to be used by a range of market participants.

Second, limited transparency undermines the interpretability of methodologies. Potential inconsistencies in the construction and outcome of ESG ratings by providers, without sufficient transparency regarding these differences, could be damaging for financial integrity if market participants are unable to decipher them (OECD, 2020[4]). These challenges are compounded by the high and varying number of metrics measured in one E pillar score and by the insufficient quality of forward-looking metrics, which together prevent them from supplying comparable information on climate transition risks and opportunities across firms and jurisdictions (OECD, 2020[5]; OECD, 2021[1]). Greater transparency and precision of the meaning of sub-category scores and metrics could also contribute to better alignment of E, S and G pillar scores with a specific purpose, such as the E pillar to assess climate transition risks and opportunities, or broader environmental impacts. Such clarity would allow investors to make asset allocation decisions consistent with goals related to long-term value, risk management, and specific sustainability goals.

Importantly, the policy recommendations in this section aim to summarise the benefits that market participants derive from a variety of ratings and methodologies from providers through greater transparency. It is not meant to hinder independence or innovation of such providers in order to deliver relevant approaches to market participants. Rather, the aim is to ensure a suitable level of clarity of methodologies and outputs, and enhance market participants' understanding of the appropriate use of such approaches for various investment objectives.

The availability of high quality ESG information will be vital to support market participants in making informed investment and capital allocation decisions. Therefore, policy makers and market participants should strive to work together (where appropriate) to strengthen the reliability and comparability of available ESG metrics in line with global baseline standards (including but not limited to potential standards, such as those being developed by the ISSB).

Policy recommendation 1.

Policy makers, financial authorities and central banks (where appropriate within domestic mandates) should strengthen the availability of reliable and quality ESG data and metrics in line with global baseline standards.

1.1. Where consistent with domestic mandates, financial authorities should consider the tools available to them to improve the quality and consistency of data used by financial institutions, rating providers and other market participants to measure and manage ESG risks. This could include working with relevant authorities to support the implementation of mandatory disclosure in line with, or building upon, global baseline standards and guidance. These tools should ensure that information is sufficiently granular for market participants to assess ESG risk exposures across markets.

1.2. Financial authorities should also explore additional tools available to them that could provide investors with reliable and quality ESG data and metrics beyond a global baseline, where appropriate, and that support the verification of global baseline metrics. In particular, authorities and standard setters can provide guidance and good practices on the scope, format and frequency of ESG data and metrics in line with leading practices (including on core metrics). In addition, comparability of metrics across markets should be considered. This includes guidance on ways to improve the availability of comparable information for market participants and ways to expand information beyond a global baseline, such as through voluntary disclosure that builds on good practices (such as outlined in the OECD Guidelines for Multinational Enterprises and accompanying due diligence Guidance).

Addressing global fragmentation of core ESG information, and subsequent metrics, will be critical to address challenges that may currently undermine the effectiveness of sustainable finance approaches being used in financial markets. Therefore, the relevant financial authorities (where appropriate within domestic mandates) should use available tools to strengthen the availability, reliability and quality of ESG data and metrics needed for market participants to manage ESG risks and investment considerations. This could include the potential establishment of core ESG metrics used by financial institutions, rating providers, and market participants that form the core reporting of E, S, and G pillars. The process to identify such core metrics will include engagement among financial authorities and market participants, including ESG rating providers and companies subject to ratings, and a range of stakeholders to ensure their relevance. Such efforts should feed into ongoing international efforts that aim to improve the quality of ESG ratings (with considerations regarding globally determined recommendations, such as those by IOSCO). Lastly, consideration should be given to the extent to which the development of new policies and amendment of existing policies could impact the private market for ESG rating and its ongoing evolution.

In this regard, financial authorities should consider progress being made by a range of related policy makers, including securities regulators on reporting and disclosure and by the International Sustainability Standards Board (ISSB). Existing OECD standards may also feed into these discussions, and support financial authorities in establishing core metrics, such as the OECD Guidelines for Multinational Enterprises (OECD, 2011[6]) and G20/OECD Principles of Corporate Governance (OECD, 2015[7]).

Importantly, core metrics for use by financial institutions, rating providers, and market participants will help promote comparability across a wide range of financial market activities, including portfolio tilting based on ESG ratings and the creation of indices. To support this, and with consideration of the private market for ESG ratings, guidance from financial authorities and standard setters could outline metrics for use by financial institutions, asset managers and a wider range of market participants to inform approaches. Also, where appropriate, central banks could publish experiences with respect to the integration of ESG

considerations into central bank portfolio management, in particular with regard to their non-monetary policy portfolios, including the potential for core ESG metrics.

The NGFS progress report on the implementation of sustainable and responsible investment practices in central banks' portfolio management notes that central banks remain cautious in their utilisation of ESG data, mainly owing to limited comparability across providers, and therefore financial authorities and relevant policy makers should consider ways to improve the quality and comparability of ESG data (NGFS, 2020[8]). With this in mind, the development of core metrics that can be measured across industries and sectors could better support market integrity.

Policy recommendation 2.

Financial authorities should identify and use the tools available to them to support greater transparency of ESG rating methodologies and oversight of ESG rating providers to ensure high quality and interpretable methodologies and outputs.

2.1. Where existing regulatory regimes allow, financial authorities should identify and use the tools available to them to improve the transparency of ESG ratings and data products.

2.2 Engagement between financial authorities, ESG rating providers and market participants should also be encouraged in the development of terminology or definitions in line with good practices on the transparency of methodological elements, such as the calculation and updating of forward-looking metrics (and their replacement with actual and current data over time), and the composition of metrics in each of the pillars. This could include the use of industry averages in weightings or best in class, estimations or others not already publicly disclosed.

2.3 Where possible, guidance should be considered on the elements relating to conflict of interests and how these should be made transparent, including through disclosure.

Policy makers and relevant authorities should use the tools at their disposal to support transparency by rating providers on high-level methodological elements as well as key metrics used and weighting approaches to support an understanding by investors of what is driving overall ESG scores. Some financial authorities have stated that this could include a regulatory framework for providers of ESG-labelled services aimed at preventing misallocation of investments, and ESG-washing (AMF, 2020[9]). Transparency should also be encouraged on the use of available information in the market by rating providers, and clarity on how estimations are used in methodologies, to ensure that market participants are able to discern factors that influence the ESG rating providers' scores and ratings of financial institutions and firms.

Regulatory frameworks could include considerations to improve market efficiency through greater transparency of methodologies, weightings as well as the sub-categories and composition of metrics used. Transparency could also cover elements such as the extent to which subjective judgement is used within methodologies (and in metric creation), and clarity on whether and how methodological choices relate to financial materiality over the long-term. There should also be greater clarity on the way in which rating providers overcome issues relating to data gaps, due to insufficient availability of ESG information. In addition, providing clarity on the extent to which rating providers use estimations or internal information to create metrics will be important to facilitate the interpretability and comparison of ratings for the same companies across providers. This could in turn also prevent ESG-washing.

The extent to which long-term value and sustainability objectives contribute to the rating outcome should also be made clear. This will allow investors, from central banks to fund managers, to choose rating providers whose ESG rating processes, methodologies and objectives align well with their own objectives, constraints, and ESG approaches. In addition, promoting greater transparency of the main characteristics of ESG rating methodologies will promote greater market integrity and efficiency.

Policy recommendation 3.

Policy makers and financial authorities should encourage transparency of ESG rating providers regarding the high-level purpose and use of individual E, S and G scores.

3.1. Policy makers and framework providers should strengthen the purpose and appropriate use of the individual E, S and G pillars.

3.2 Where appropriate, ratings providers should also explain the extent to which pillars within ratings could be used by market participants with differing objectives (for example a focus on social objectives within an investment strategy). This can include explanations by rating providers on materiality-related aspects of core elements within the E, S and G pillars, and guidance on how overall ESG scores and pillar scores could be used across sectors and industries, or by market participants with differing investment and sustainability objectives.

Policy makers, and relevant authorities, where consistent with domestic mandates, should encourage greater transparency and clarity by ESG rating providers on the high-level purpose of individual E, S and G pillars with respect to the extent to which financial and/or sustainability-related aspects of materiality are captured. This should include the extent to which methodologies offer clear and discernible objectives with respect to financial materiality and sustainability goals in the creation of individual E, S and G pillars.

ESG rating providers should therefore be encouraged to publish information on the high-level purpose of their environmental, social and governance pillars within their ESG ratings. This would include disclosing whether they are measuring the impact of ESG considerations on firm’s enterprise value, or the firm’s impact on environmental and social factors. Greater transparency would also support the more appropriate use of such scores by companies, financial institutions and central banks for a range of sustainability objectives and reduce potential ESG washing. Such clarifications could also support more targeted ESG integration which could, for example, support long-term value or low-carbon transition objectives (in the case that the E pillar is used). This will allow financial market participants to contribute to the more appropriate use of ESG approaches aligned with investment objectives. Further assessments may also be needed to understand how different ESG considerations may impact long-term value.

Policy recommendation 4.

Policy makers, financial authorities, central banks and other relevant authorities should (where appropriate within domestic mandates) encourage transparency and comparability of climate-related factors in the environmental (E) pillar of ESG ratings, and encourage improved quality and integrity of metrics used by ESG rating providers to achieve climate-related objectives.

4.1. Financial authorities should encourage clarity on the extent to which E pillar metrics support climate-related objectives, and their relative weighting in the E pillar, in order to support a more accurate and effective use of the E pillar and E pillar metrics by financial institutions, asset managers, and other market participants. This could build on a global baseline of core climate-related metrics.

4.2. Where within mandates, financial authorities could consider ways to encourage a dedicated climate transition category within the environmental pillar, in line with international standards and including metrics that are commonly used in global baseline reporting (building on good practices).

4.3. Where applicable, the oversight of ESG rating providers should include an evaluation of the extent to which rating methodologies specify the extent to which key climate transition factors contribute to the environmental pillar rating, and the extent this is made transparent to rated issuers and markets.

Financial authorities should facilitate greater transparency of relevant metrics used by ESG rating providers so that market participants understand the extent to which their methodologies and E scores align with goals related to long-term value, risk management, and specific sustainability goals, including the low-carbon transition. Central banks, supervisors, financial market regulators, and other financial authorities should also engage with market participants on ways in which the categories of metrics and methodological elements within the E pillar should be disclosed. Such disclosure can be relevant to support investment decisions, which could for example rely on the assessment of investee's climate transition plans and resilience to ESG risks (where consistent with applicable laws).[4] For example, if metrics and methodologies within the E pillar are transparent, central banks that are using ESG criteria to green their non-monetary policy portfolios (e.g. own funds) could clarify how they use the environmental pillar to manage climate-related risks. In this respect, evidence from BIS and NGFS research highlights that some central banks are already placing an emphasis on environmental metrics and frameworks, and call for improved climate-related data to enhance this assessment (BIS, 2021[10]; NGFS, 2022[11]).

Financial authorities and rating providers could consider investors' need for a clear climate-specific subcategory within the E pillar score. In turn, transparency of the E pillar sub-categories could be strengthened to support market participants' use of such ratings (and associated metrics) to analyse whether their portfolio aligns with climate transition objectives. It will also allow a clear distinction between tilting or screening strategies that reward general environmental factors, and those that seek to align specifically with a low-carbon transition.

Pillar two: Policy recommendations to support financing of a climate transition and climate-related objectives

In recent years, financial markets have progressed in their efforts to support a low-carbon transition and mitigate climate-related risks. Yet, the lack of quality climate-related data, comparability across metrics, and transparency regarding methodologies, risks an erosion of investor trust and market integrity as climate finance grows to the scale needed to support national decarbonisation goals. While markets are starting to address climate transition risks and opportunities (and incorporating these into the valuations), progress remains constrained by a number of impediments. These include legal uncertainties that undermine pricing of externalities, inadequate disclosures of forward-looking metrics on net-zero pathways, and environmental impacts of corporate decisions (OECD, 2021[12]).

Therefore, international policies and good practices are needed to strengthen the clarity, credibility, and alignment of practices to address potential greenwashing and support the financing of a low-carbon transition. In addition, strengthening the tools and methodologies that underpin valuations, and effective climate-aligned products in financial markets will further support an orderly transition to low-carbon economies. This policy recommendations in this section contribute to the G20 Sustainable Finance Working Group's planned drafting of a high-level framework on transition finance for the Indonesian G20 presidency.[5] Financial authorities should promote the improvement of the availability of reliable, comparable and high-quality data for market participants and investors on climate-related risks and opportunities to support informed investment and capital allocation decisions.

Financial authorities (where appropriate within domestic mandates and in co-operation with other policy communities as relevant) should use such tools to promote and strengthen the availability, reliability and quality of climate-related data and metrics needed for market participants to manage climate-related risks and opportunities, and for investors to make informed decisions. In addition, financial authorities should strive to engage with market participants to understand what data is needed and the appropriate methodologies for the development of reliable and comparable metrics to measure and manage climate-related risks and opportunities, which could be achieved through capacity building. As a starting point, these should be consistent with global baselines standards (such as TCFD recommendations and reporting standards being developed by the ISSB) and consider progress being made among securities regulators and OECD Committees such as the Corporate Governance Committee that will consider climate-related reporting and disclosure in the update of the G20/OECD Principles of Corporate Governance.

Policy recommendation 5.

Policy makers, financial authorities and central banks (where appropriate within domestic mandates) should strengthen the availability and use of reliable, comparable and high-quality data to assess climate risks and opportunities in line with global baseline standards.

5.1. Financial authorities should improve the quality and consistency of data on climate-related risks and opportunities. This includes understanding the tools available to them to support the alignment of financial market data and metrics with global baseline standards (such as the TCFD recommendations and reporting requirements being developed by the ISSB), and explore ways to support sufficient granularity to assess concentrations of, and interlinkages between, climate-related risk exposures. This should also include co-ordination with other parallel efforts to improve ESG information, reporting and disclosure (including elements within policy recommendation 1 in this document).

5.2. Financial authorities should work with relevant actors to support mandatory disclosure in line with, or building upon, the global baseline and explore additional and voluntary tools available to them that could provide investors with additional climate-related data beyond a globally defined baseline (including considerations such as OECD due diligence practices to integrate climate considerations into corporate lending practices [*forthcoming*]). Importantly, data and metrics used by market participants should seek to support market integrity through core metrics that can be measured across industries and sectors to allow for more precision in financial market alignment with climate transition pathways, and to reduce the risk of greenwashing.

5.3. Financial authorities, along with other relevant bodies, should support the development and use of forward-looking metrics and methodologies on climate-related risks for financial institutions and the financial system as a whole. Guidance on forward-looking metrics and their purpose (including supporting ways to encourage the replacement of estimates with actual data) supports market integrity and the information needed to improve methodologies and scenarios. Such metrics should follow a format and frequency that will allow investors to decipher information on a range of risks (including tail-risks). Such format and frequency could build on existing good practices for corporates more broadly, such as those set out of reporting and disclosure of relevant financial information in the G20/OECD Principles of Corporate Governance and OECD Guidelines for Multinational Enterprises and their ongoing update to take into consideration climate and sustainability-related considerations.

5.4. Where within mandates, central bank supervisors and other authorities as relevant, should consider ways to strengthen their own disclosure of data on climate-related risks and opportunities to support better management of these factors, including on forward-looking aspects. Central bank supervisors may wish to develop toolboxes of good market practices.

Improving the quality, comparability and reliability of climate-related disclosure by financial institutions and market participants is important for a number of reasons. First, these disclosure attributes are critical to reducing potential mispricing of climate-related risks throughout the financial system. Second, comparable and reliable data enables market participants to identify and capitalise on climate-related opportunities needed to scale up transition-aligned finance. Third, improving data also helps identify areas in which financial institutions need to improve their internal practices to better support a low-carbon transition.

In addition, addressing the market fragmentation that results from limited quality, comparability and reliability of climate-relevant data available to investors will be critical in establishing market integrity and facilitating capital allocations in line with a low-carbon transition. OECD analysis found that while markets are beginning to price transition risks and opportunities, they remain constrained by a number of impediments, ranging from uncertainties that undermine the pricing of externalities to inadequate forward-

looking metrics on net-zero commitments and pathways (OECD, 2021[12]). Central banks, such as the Bank of England and De Nederlandsche Bank, have called on framework providers[6] and standard setters to promote the adoption of clear, consistent and comparable climate-related disclosures. Banca d'Italia has advocated for bold international action to make ESG data and ratings more robust, and prevent greenwashing (Banca d'Italia, 2021[13]),[7] and the European Central Bank (ECB) and Eurosystem members have agreed on a set of common minimum standards for how national central banks' in-house credit assessment systems should include climate-related risks in their ratings.

Importantly, improving the data through which market participants monitor and assess climate-related risks and opportunities in financial markets could improve price discovery, market liquidity and efficiency and could lead to a better integration of such risks and opportunities into investment decisions (FSB, 2021[14]). In addition, as such data and metrics are used by a range of third parties (including credit rating and index providers, see policy recommendation 2), strengthening the comparability and completeness of such data across jurisdictions and markets could reduce potential financial stability implications related to both climate-related physical and transition risks.

Over the past several years, a number of central banks have increased their disclosure of climate-related risks and opportunities, while others have expressed their intention to do so in the future. In many jurisdictions central banks have taken the responsibility to lead by example and to improve the quality, comparability and reliability of climate-related data for financial institutions. In addition, improving data on climate-related risks will be important for central banks to understand their balance sheet exposures. The NGFS recommends that central banks disclose their high-level approach to climate-related risks and opportunities, including how governance structures for monetary policy, asset management, financial stability, and internal operations encompass climate-related risks and opportunities (NGFS, 2021[15]). Guidance by NGFS issued in 2021 outlines recommendations to support the appropriate disclosure of the above areas, and others, to support the management of climate-related risks and opportunities across the financial system. OECD recommendations could support the implementation of such guidance and set out considerations for OECD financial authorities.

Policy recommendation 6.

Where within their mandates, policymakers, financial authorities and central banks should support the consistent and transparent use of climate-related metrics by third-parties, in order to foster greater quality and comparability across jurisdictions and industries.

6.1. Metrics used by third-parties (such as index providers and transition finance framework providers, including authorities and industry bodies) should support the global comparison of climate-related risks and opportunities, as well as targets and objectives for market participants committed to transition. Metrics should be of sufficient quality and reliability to support comparisons across jurisdictions, firms and sectors, and be forward-looking when necessary. Where possible, metrics should also align with global baseline standards in reporting and disclosure on climate-related factors.

6.2. Methodological elements should be transparent to support the quality of climate-related metrics used by third-parties. In the event that estimations used by third-parties are required to account for missing information for financial institutions or business, methodological elements used to develop such metrics should be sufficiently transparent so that market participants can understand any high-level differences in such metrics and interpret their appropriate use across financial markets.

6.3. Authorities and standard setters should provide clear and proportional guidance to support the scope, format and frequency of information (including forward-looking information) to be disclosed in firms' transition plans. Specific guidance should also be provided on disclosure requirements for SMEs along with other measures to support the latter in meeting such requirements over time.

Financial market metrics used to monitor and measure climate-related risks and opportunities are being increasingly used by a range of third-party service providers in financial markets, including by credit rating agencies and financial index providers. However, lack of transparency and fragmentation in the types of core metrics used and the methodologies adopted to aggregate or estimate information can undermine market participants' ability to interpret decision-useful information within metrics. In turn the products and tools that use such information may not effectively consider transition risks and opportunities (OECD, 2021[12]). Therefore, where possible financial authorities should encourage transparency in the creation and use of core climate-related metrics by third-parties.

Where possible, such metrics should be interpretable and appropriate for use by a range of market participants in their risk management processes, including emerging frameworks for scenario analysis and stress testing. The Financial Stability Board notes that further work is needed to develop relevant metrics and improve their consistency across firms and jurisdictions (FSB, 2021[14]). Greater consideration should also be given to how such metrics developed by third-parties are used by central banks and market participants in financial market exercises, such as in the objectives, scope and design of scenario and stress testing (taking into consideration the sensitivity of such information).

Central banks and supervisors are increasingly undertaking scenario analysis to identify, assess and understand how to mitigate climate risks in the financial system in the most effective manner. Scenario analysis is an important tool to develop insights in these areas as it provides a flexible 'what-if' framework for exploring how the risks may evolve.

The NGFS has led the identification of good practices for the objectives, scope, design and resourcing needed for scenario analysis exercises. While significant progress has been made, the OECD could further support these efforts by considering how OECD countries can further contribute to the adoption of NGFS scenarios and support the continual improvement of climate-related scenario analysis and stress testing.[8]

Policy recommendation 7.

Where within their mandates, the relevant authorities should support the development of transition plans by financial intermediaries that include overall net-zero and interim targets that are supported by up-to-date and sound scientific methodologies consistent with the goals of the Paris Agreement.

7.1. To improve information available to investors, overall net-zero and interim science-based targets in transition plans should be interpretable, including through transparency on the methodology used to create such targets and assessments, and consistent with data availability over time. To ensure that this is decision-useful over time, such targets should consider guidance such as that of TCFD and ICMA (as well as others such as ISSB and EFRAG, and the Due Diligence Guidance for the implementation of the OECD Guidelines for Multinational Enterprises).

7.2. Policy makers should seek the perspectives of external experts to identify and update climate forecasts, scenarios, and other tools necessary to ensure that transition plans can be grounded in up-to-date and sound scientific guidance.

Where within their mandates, relevant authorities should encourage that climate transition plans are published by financial institutions, asset managers, and businesses for use by market participants to assess climate-related risks and opportunities. The relevant authorities should encourage that transition plans provide information in line with TCFD recommendations, as well as clear base and target years on the basis of science-based targets. This should include encouraging the use of NGFS scenarios in order to support cross firm comparison. Those authorities should also encourage the inclusion of overall net-zero targets and interim targets for financial institutions, asset managers and businesses, in the short, medium and long term. Overall and interim targets should follow a clear methodology built on up-to-date and internationally recognised scientific advice. This can allow market participants to understand the extent to which such actions could support a reduction in greenhouse gas emissions and meet the goals of the Paris Agreement. Consideration should also be given by relevant authorities as to whether it would be relevant for them to issue guidance on minimum requirements (including for activities such as benchmark creation) that would better support the alignment of climate transition financial market activities with sound scientific guidance.

Importantly, science-based assessments and targets are needed to ensure that transition plans and the related supporting material are legitimate in getting financial markets to the policy goal of lowering carbon intensity and reducing physical climate-related risks, and to not contribute to financial stability concerns that may derive from unreliable information. Without the integration of greater science-based targets and quantitative assessments of transition plans, there is a risk that entity-level strategies to support the goals of the Paris Agreement will not support collective global pathways, and could lead to greenwashing practices.

Policy recommendation 8.

Policymakers and market participants should collaborate within international fora to share good practices and continually strengthen the appropriate use of net-zero strategies and associated tools for financial firms who have made voluntary net-zero commitments, including by issuing guidance.

8.1. Policy makers and market participants should collaborate within international fora to enhance the credibility and appropriate use of net-zero strategies and associated tools by financial institutions, asset managers and other market participants who have made voluntary net-zero commitments.

Managers and asset owners are committing well over USD 100 trillion to the ambition of net-zero by 2050, and calling on major corporate issuers to do the same. As net-zero tools used within such strategies can take a number of forms, it will be important for policy makers to build on the prior three policy recommendations to engage with international fora to strengthen the appropriate use of net-zero strategies and tools.

Net-zero strategies can refer to the process of achieving overall zero net emissions through reducing greenhouse gas emissions as far as possible and then using strategies such as carbon offsetting, for residual emissions. While such strategies and tools will be important in contributing to a low-carbon transition, they need to be credible and used appropriately. Therefore, where appropriate, greater consideration should be given to the credible use of net-zero tools and how policies can be used to support greater clarity and definitions with respect to the level of credibility of net-zero tools, as well as guidance on their appropriate use (for example maximum limits on the eligible carbon credits and offsets), including how they related to international expectations and standards such as the Paris Agreement and responsible business conduct. As institutional investors and market participants develop net-zero focused strategies, international co-ordination will be needed to ensure that such commitments contribute to capital allocation and market integrity that supports economic transformation needed to address climate change. Ultimately this will be important to ensure that net-zero strategies effectively align with low-carbon and low-emissions pathways, and that it can contribute to their achievement.

Policy recommendation 9.

Financial authorities should use the mechanisms available to them to support high-quality data and the monitoring of such data, including interim targets, in transition plans, including through third-party verification of information.

9.1. Policy makers should collaborate with stakeholders and external experts to improve the quality of verification and monitoring frameworks used by third-parties, and consider guidance that outlines good practices to improve the quality of verification and monitoring frameworks, and associated methodologies. This includes considerations across geographies, industries and asset classes. Where possible, policy makers should also consider guidance that outlines good practices to improve the quality of verification and monitoring frameworks, including to ensure alignment of targets with overall scenarios and the credibility of related strategies.

9.2. Third-party verification bodies should be transparent in the methodology they use to verify information in transition plans.

Financial authorities, international organisations, and market participants should encourage transparency of information to support quality data and targets used in transition plans, as well as effective use of monitoring, including through third-party verification. In turn, this will improve availability of relevant data for financial markets to support an orderly transition to low-carbon economies.

The FSB highlights that one of the significant data gaps is information included within transition plans of financial institutions and businesses to assess climate-related risks and opportunities to the financial system (FSB, 2021[14]). This is also cited in the NGFS progress report on bridging data gaps (NGFS, 2021[16]).Therefore, strengthening the monitoring and verification of data within transition plans should include regular or third-party assessments as to the quality of transition plans and strategies (where existing regulation allows), including the extent to which qualitative (i.e. binary metrics) or quantitative information is used in the development of transition plans, which may in turn feed into other approaches used by market participants.

The OECD Policy Framework for Effective and Efficient Financial Regulation outlines that mechanisms should be established to ensure transparent information on domestic and international financial system developments, macroeconomic trends, and emerging risks (OECD, 2010[17]). To support this, guidance could be issued outlining the core metrics being used by market participants and jurisdictions to assess the quality of transition plans and strategies.

Even in the case that necessary differences exist across industries and geographies, having comparable criteria to be verified and monitored over time within transition plans will allow market participants to make informed investment decisions that could help them manage climate-related risks. In addition, the inclusion of basic quantitative information on decarbonisation targets over time would support greater comparability and quality of metrics used for credit ratings (and other third party activities).

Policy recommendation 10.

Where consistent with domestic mandates, policymakers should use the tools available to guide good practices of market participants that wish to improve climate aligned investing and engagement strategies. This should include, but not be limited to, greater transparency of expectations, incentives and options for accountability where implementation falls short of firms' transition plans and targets over time, when within investor objectives.

10.1. Policy makers should consider promoting guidance for institutional investors, asset managers, financial institutions and others who wish to engage in climate-aligned investing on the design and implementation of effective engagement strategies by asset owners in relation to climate-related factors. When appropriate, future guidance should consider investor stewardship and engagement activities and should provide recommendations on their appropriate use and follow-up measures in case of material misalignment with expectations (for both investors and firms) as well as on adequate transparency of these aspects.

10.2. Where possible, policy makers should consider the tools to provide oversight on the status of the implementation of such climate-aligned and engagement strategies, and activities for example in order to enforce guidance on net-zero transition plans and, more broadly, the dialogue between investors and investees. Where possible pilots should be used to trial such tools and oversight. Additionally, policy makers could also consider clarifying how investors can interpret information and good practices to monitor progress of firms over time, including against climate transition targets and strategies.

Institutional investors' active engagement and their ability to hold investee entities, including financial institutions, accountable of their climate transition targets is crucial. It can yield benefits for investee companies, strengthening their commitments. This could improve the availability of financing at a lower cost of capital. In this respect, developing good practices on stewardship and engagement strategies is critical to turn climate transition plans and actions into market signals that impact issuers' ability to reinvest. Such good practices should build on existing considerations on investor engagement and stewardship, such as those set out in the G20/OECD Principles of Corporate Governance and their ongoing update, as well as in OECD Due Diligence Guidance and forthcoming update on climate for investors and practitioners in the real economy.

To help encourage the effective implementation of climate transition plans by institutional investors, asset managers and financial institutions, investor engagement tools used by willing investors could include clear expectations related to financial and climate-related considerations within such strategies. Stronger guidance in this respect would help financial institutions and investors to understand their responsibilities in line with their engagement plans, and to identify which policy makers can play a key role, including promoting existing guidance and standards.

The status of investors' stewardship and engagement is uneven across jurisdictions. In particular, in many cases there is no specific government-issued guidance on how and to what extent they should engage with companies on ESG issues and climate related-risks and integrate these factors within their portfolio management activities. Therefore, there is room for recommending policy makers to promote good engagement practices in line with international standards.

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Annex A. Overview of selected good practices that may support policy makers in interpreting and operationalising the policy recommendations

The policy recommendations include areas set out by the OECD Committee on Financial Markets to promote good market practices to strengthen ESG investing and finance a climate transition. In line with this, a number of jurisdictions are already implementing policies to support this. This annex outlines selected good practices by Members of the OECD Committee on Financial Markets. It serves as a non-exhaustive list that can be updated and expanded over time.

Policy recommendation 1

- In 2021, the International Financial Reporting Standards (IFRS) Foundation established the International Sustainability Standards Board to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions (IFRS, 2021[18]).
- The European Financial Reporting Advisory Group (EFRAG) is developing European sustainability reporting standards. As part of this process, in 2021 the European Commission adopted a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD) which would oblige companies under scope to report in compliance with European sustainability reporting standards adopted by the European Commission as delegated acts.
- The Financial Stability Board (FSB) note in their climate roadmap that "the ability [of financial markets] to manage risks depends on reliable data, from a variety of sources, including from scientific and official sector sources and also from corporate disclosures. High-quality corporate disclosures enable market participants to make better informed decisions, such as on pricing and allocation of capital, and they help financial authorities to better assess the resilience of financial institutions and the overall financial system to climate-related risks." (FSB, 2021[14]).
- IOSCO supports "a global baseline for investor-oriented sustainability-related disclosure standards focussed on enterprise value creation, which jurisdictions could consider incorporating or building upon as part of their mandatory reporting requirements as appropriate and consistent with their domestic legal frameworks" (IOSCO, 2021[19]) (IOSCO, 2021[20]).
- The Bank of International Settlements (BIS) calls for greater cooperation among the various stakeholders involved in sustainable finance data to improve the quality and reliability of metrics for use by central banks (BIS, 2021[10])

Policy recommendation 2

- The French Autorité des Marchés Financiers (AMF) and Dutch Autoriteit Financiële Markten (AFM) call for an ad-hoc European mandatory regulatory framework for ESG ratings (AMF, 2020[9]).

- In addition, the Japanese Financial Services Agency (FSA) plans to develop a code of conduct for ESG rating and data providers regarding issues such as the transparency and evaluation of methodologies, as well as governance, with the aim of ensuring the independence and objectivity of evaluations, bearing in mind clarification of the roles to be played by companies and investors.
- The UK's Sustainable Investing Roadmap also notes the intention to consider bringing ESG data and rating providers into the regulatory perimeter (UK Government, 2021[21]).
- The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published in February 2022 a call for evidence to gather information on the market structure for ESG rating providers in the European Union (EU).
- IOSCO supports a regulatory focus on transparency of methodologies, governance, conflicts of interest and internal control requirements for ESG rating providers (IOSCO, 2021[20]).
- Some regulatory initiatives have been underway regarding requirements for benchmarks, such as EU Benchmarks Regulation (Commission Delegated Regulation (EU) 2020/1818, which includes elements on ESG disclosure (Europa, 2020[22]).

Policy recommendation 3

- The French Autorité des Marchés Financiers (AMF) call for greater clarity on the use of E, S and G factors, as well as Socially Responsible Investing criteria in fund creation (AMF, 2020[23]).
- The UK Consultation Paper on ESG issues in Capital Markets outlines the need for transparency on methodological factors (which could include the E, S and G pillar approaches) by rating providers (FCA, 2021[24])

Policy recommendation 4

- The French Autorité des Marchés Financiers (AMF) and Dutch Autoriteit Financiële Markten (AFM), propose a European regulatory framework for providers of sustainability-related services, including ESG rating providers, and how they use climate-related information. This includes guidance on the transparency of relevant E metrics to support a green transition (AMF, 2020[9]).
- In addition, the Japan Financial Services Agency (FSA) plans to develop a code of conduct for ESG rating organisations and data providers regarding issues such as the transparency and comparability of evaluation methodologies as well as governance, with the aim of ensuring the independence and objectivity of evaluations.
- The FSB notes that while ESG ratings, the environmental pillar (or 'E pillar'), are one source of information on climate risks for financial market participants, greater clarity is needed as to the extent to which such ratings provide information on firms' current or planned future emissions, and on firms' exposures to transition risk.
- Central banks within the NGFS note that greater transparency of ESG rating methodologies should consider aspects that contribute to the assessment and management of climate-related risks and opportunities, notably in the context of central bank portfolio management (NGFS, 2019[25])

Policy recommendation 5

- The De Nederlandsche Bank's Climate Risks Working Group calls upon businesses to disclose the impact of climate change on their business operations and urges them to adopt the recommendations of the TCFD framework (De Nederlandsche Bank, 2022[26]).

- Good practices have also included those galvanising around the use of TCFD as a global baseline, which could support the more comparable use of information by market participants. For example, New Zealand and Switzerland (among others) have announced their intention to implement mandatory TCFD-aligned climate-related financial disclosures, which includes for financial institutions.
- In December 2021, the UK, through the Financial Conduct Authority (FCA), mandatory TCFD-aligned disclosure requirements for listed companies, asset managers and FCA-regulated asset owners. This builds on the 2020 rules to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations for premium listed companies, with the first round of disclosure taking place in 2022 (FCA, 2020[27]).
- Colombian issuers are required to disclose information in line with TCFD and the Value Reporting Foundation (VRF) standards.
- Japan’s partially updated Corporate Governance Code will mandate future Prime Market listed companies to disclose climate-related information in line with TCFD (JPX, 2021[28]).
- Central banks can also lead by example by integrating ESG considerations into their investment strategies and disclosing their climate risk-related exposures and strategies. For example, the Bank of Italy has been integrating sustainability criteria into its investment policy since 2019 and adopted a responsible investment charter in 2021. It has committed to promoting sustainability disclosure by issuers, banks and other financial institutions; to integrating ESG principles into the management of its investments and financial risks; to communicating regularly the results achieved in terms of sustainability.
- The European Central Bank and Europsystem will urge rating agencies to be more transparent about how they incorporate climate risks into their ratings and to be more ambitious in their disclosure requirements on climate risks. The Eurosystem is in close dialogue with the relevant authorities on this matter. Additionally, the Eurosystem agreed on a set of common minimum standards for how national central banks’ in-house credit assessment systems should include climate-related risks in their ratings. These standards will enter into force by the end of 2024 (ECB, 2021[29]).
- The European Central Bank will develop statistical data for climate change risks analysis. This will include new experimental indicators, covering relevant green financial instruments and the carbon footprint of financial institutions, as well as their exposures to climate-related physical risks. This will be followed by step-by-step enhancements of such indicators, starting in 2022, also in line with progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting (ECB, 2021[29]).
- The NGFS central bank participants have agreed to improve climate-related disclosure (NGFS, 2021[15]). As part of this, the NGFS Bridging Data Gaps workstream will release a report in July which will focus on data reliability and accessibility, taxonomies (and other sustainable finance alignment approaches), and disclosures.
- The NGFS recommends that central banks disclose their high-level approach to climate-related risks and opportunities, including how governance structures for monetary policy, asset management, financial stability, and internal operations encompass climate-related risks and opportunities (NGFS, 2021[15])
- The FSB welcomes the IFRS’s programme of work to develop a baseline global sustainability reporting standard, highlighting the need for robust governance and public oversight, and using the TCFD framework as a foundations to measure climate-related risks. The FSB also notes that further data on financial implications of the possible future crystallisation of climate-related risks will also be needed (FSB, 2021[14]).

- Guidance by NGFS issued in 2021 outlines recommendations to support the appropriate disclosure of the above areas, and others, to support the management of climate-related risks and opportunities across the financial system. (The NGFS recommends that reliable and comparable climate-related data are crucial for financial sector stakeholders to assess financial stability risks. The G7 has also noted its support to move toward mandatory climate-related financial disclosures that provide consistent and decision-useful information for market participants (G7, 2021[30]).
- IOSCO notes “an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards”, setting out recommendations to support this (IOSCO, 2021[19]).
- In March 2022, the ISSB published their exposure drafts, of both their proposed climate-related and general sustainability-related disclosures reporting standards, for consultation (IFRS, 2021[18]).
- In 2020, the European Central Bank released guidance for banks on the management and disclosure of climate-related and environmental risks under current prudential rules (ECB, 2020[31]).

Policy recommendation 6

- The NGFS recommend steps by policy makers to enhance the comparability and interoperability of transition frameworks (and the metrics used within them) in order to nurture a common understanding and provide a consistent basis for green external review (NGFS, 2022[11]).
- The French Autorité des Marchés Financiers (AMF) and the Dutch Autoriteit Financiële Markten (AFM), propose a European regulatory framework for providers of sustainability-related services, including on how third parties use climate-related information to develop metrics (AMF, 2020[9]).
- The Science Based Targets Initiative is an example of a framework for setting corporate emission reduction targets grounded on climate science. Near- and long-term targets are subject to being reviewed and validated against criteria aligned to Paris Agreement.

Policy recommendation 7

- The UK’s Transition Plan Taskforce was launched by the UK Government in early 2022 to develop a gold standard disclosure framework for transition plans. The Taskforce published a Call for Evidence on a sector-neutral framework for private sector transition plans in May 2022 (Treasury, 2021[32]).
- GFANZ members have committed to declare net-zero targets by 2050, with interim targets for 2025 and/or 2030. In addition updated guidance from TCFD outlines targets and metrics to be used in transition plans (TCFD, 2021[33]) and ongoing discussions through NGFS to improve scenarios. ICMA establishes guidance to support climate transition strategies, including targets and pathways that are ‘science-based’.
- ICMA notes that underlying methodological elements should be made available as they related to overall and interim targets, including capital expenditure (capex) and operational expenditure (opex) plans and other relevant financial metrics (ICMA, 2020[34]).
- ICMA advises that the planned transition trajectory should be aligned with, benchmarked or otherwise referenced to recognised, science-based trajectories. In addition, GFMA guidance notes that transition plans should use clear targets and metrics supported by internationally recognised science-based transition pathways (ICMA, 2020[34]).

Policy recommendation 8

- The group of G20 countries have committed to improving the credibility and accountability of net-zero commitments by financial institutions and market participants (G20, 2021[35])
- The Net-zero Initiative is advocating for a movement from a definition of carbon neutrality (where entities, institutions and jurisdictions compensate for GHG emissions) to one of climate contributions (where entities, institutions and jurisdictions adopt mechanisms with environmentally positive impacts that contribute to global climate neutrality).

Policy recommendation 9

- The OECD Policy Framework on Effective and Efficient Financial Regulation recommends information-sharing within and across jurisdictions, through formal and informal channels, on surveillance and monitoring mechanisms to support greater market integrity and efficiency throughout financial systems.
- OECD due diligence guidance on responsible business conduct and forthcoming OECD due diligence for climate risks outlines expectations for enterprises in setting climate objectives, developing and implementing prevention and mitigation plans and tracking, verifying and reporting progress over time.
- ICMA notes that independent technical review and verification of information in firms' transition plans should be undertaken, including to assess alignment of both the long-term and short-term targets with the overall scenario and the credibility of the firms' strategy to reach the target.
- An emerging good practice is the One Planet Data Hub initiative, which aims to serve as an open-access accountability platform gathering data on the transition of private actors, on the commitments that they made and on the implementation of said commitments.[9] The aim of this is to fill the gap in tracking efforts of voluntary financial sector net-zero commitments to provide greater accountability and support reliable and quality information.

Policy recommendation 10

- The 2020 UK Financial Reporting Council update of the stewardship code integrated considerations relating to the treatment, engagement and monitoring of climate-related factors in investor engagement strategies (FRC, 2020[36]). UK regulators will also work with industry to roadtest the outputs of the UK's Transition Plan Taskforce to ensure they form an effective basis for stewardship of the transition to net-zero" and "The UK's Investment Association published guidance in 2020 on the role of stewardship in promoting sustainable growth (UK Government, 2020[37]). In addition, the UK Government's roadmap on sustainable investing includes a strategy to promote investor stewardship in green finance in the UK (UK Government, 2021[21]).
- The 2020 update of Japan's stewardship code encouraged greater dialogue between investors and investees to support sustainability considerations in medium- to long-term investment returns.
- In Italy, the Italian Investment Management Association (Assogestioni) has published the "Italian Stewardship Principles a set of recommendations for institutional investors. The recommendations emphasise the responsibility of investors to monitor and interact with investee companies, but also to directly intervene if there are significant concerns on environmental and social issues.
- Investors' networks have also provided resources and guidance on effective engagement strategies, like the Climate Action 100 initiative through the activities of its regionally focused working groups.

- In addition, the European legislator has placed at the basis of the Shareholders Rights Directive II (SHRD II), providing for the adoption of an engagement policy and defining in detail the related content. European authorities are already engaged in the oversight of the implementation of investor engagement strategies, as a consequence of the specific provisions set forth by the SHRD II.
- OECD due diligence guidance on responsible business conduct and forthcoming OECD due diligence for climate risks outlines expectations for enterprises in setting climate objectives, developing and implementing prevention and mitigation plans, including with respect to stewardship, engagement and monitoring performance of investee companies and other assets.

Notes

[1] The CMF's mandate is to promote efficient, open, stable and sound financial systems, based on high levels of transparency, confidence, and integrity, so as to contribute to sustainable and inclusive growth.

[2] Including five CMF Financial Market Roundtables, three international Roundtables, five sessions at the OECD Forum for Green Finance and Investment, and five OECD reports: (Boffo and Patalano, 2020[38]; Boffo, 2020[39]; OECD, 2020[3]; 2021[1]).

[3] Given that remits may vary from jurisdiction to jurisdiction, and authority within remits may vary, all Recommendations and sub-Recommendations articulated act as considerations for policy makers.

[4] The aim of this would be to foster greater clarity on relevant metrics and not to encourage convergence of such metrics.

[5] In addition, the OECD is collaborating with a range of international organisations (including the IMF, BIS, World Bank) to further support the G20 Sustainable Finance Roadmap: https://g20sfwg.org/wp-content/uploads/2021/10/G20-Sustainable-Finance-Roadmap.pdf.

[6] In the context of ESG and climate transition, framework providers consider those types of market participants that offer frameworks and outputs from frameworks that rate, assess or categorise information as a service to investors and intermediaries. ESG ratings providers, ESG disclosure framework providers, climate transition bodies that establish and evaluate issuer transition pathways, all fall under this broad categorisation.

[7] The G20 Presidency programme on Sustainable Finance, webinar press release (30th September 2021): https://www.omfif.org/wp-content/uploads/2021/09/Visco_statement-30092021.pdf.

[8] Given that the possible development of OECD policy recommendations would be starting at an early stage, additional time may be needed to craft policy recommendations and good practices (in co-operation with other policy communities as relevant).

[9] From individual commitments to global achievement: towards more transparency and monitoring of private actors' actions, press release of the One Plant Data Hub (28th October 2021): https://www.oneplanetsummit.fr/en/events-16/individual-commitments-global-achievement-216

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