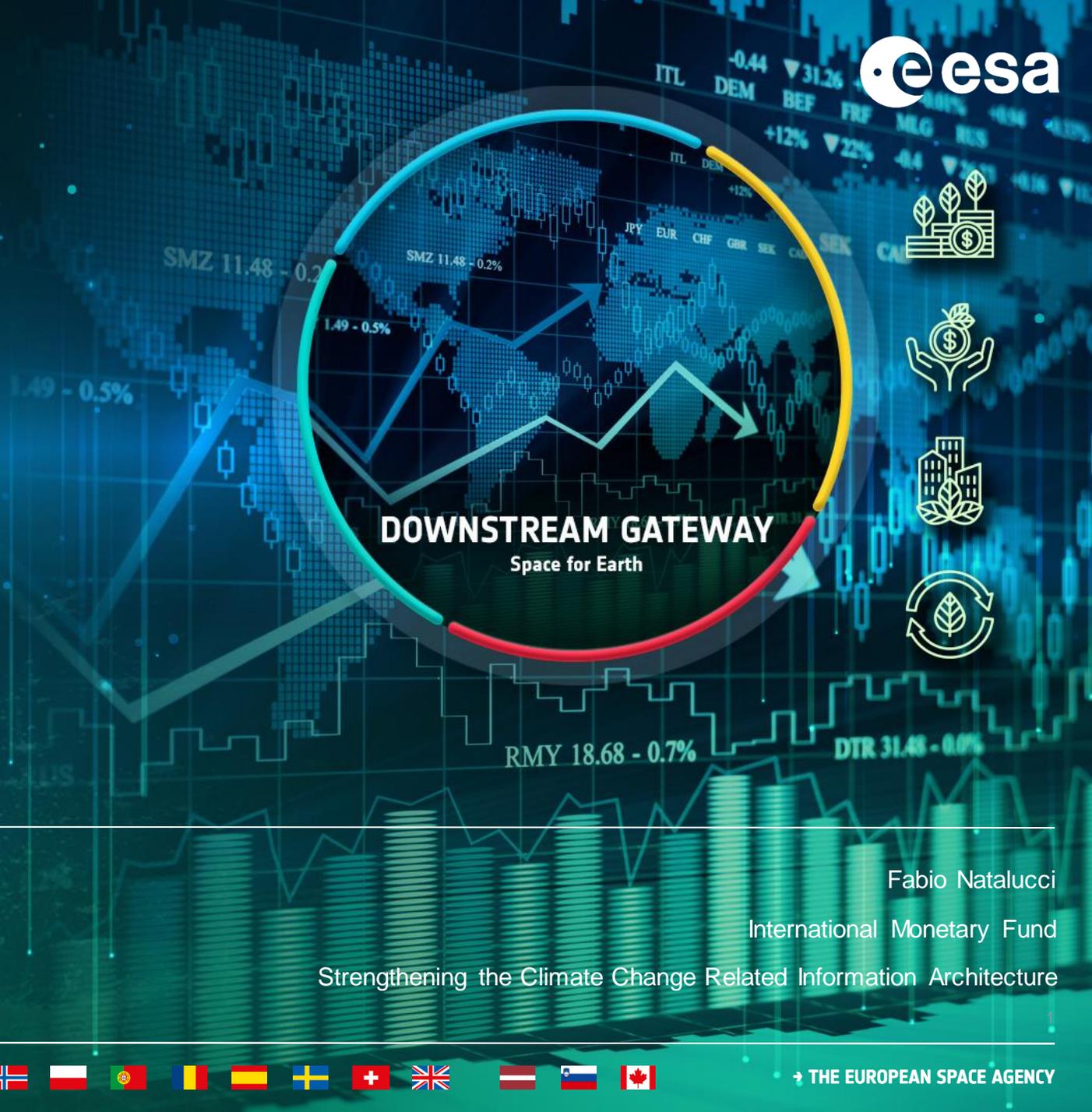


# SPACE FOR FINANCE



**DOWNSTREAM GATEWAY**  
Space for Earth

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Strengthening the Climate Change Related Information Architecture

# The economic and social costs from climate change warrant immediate action

Without additional mitigation efforts, global warming will “more likely than not exceed 4°C above pre-industrial levels”, leading to severe, widespread, and irreversible damages globally (IPCC 2014).

- The necessary transition to a low-carbon economy includes **transition risks**, but also **opportunities**.
- Market participants (and regulators) face enormous **informational challenges** (IMF GFSR April 2020).
- Both physical and transition risks could adversely impact **financial stability** (FSB 2020).

The most effective and efficient way to mitigate climate change is **through** globally implemented carbon pricing (IMF FM 2019).

- Implementation might be challenging and a policy mix, including a **green investment push**, may be warranted (IMF WEO 2020).
- **Sustainable finance can play a role** through stewardship and by lowering the costs of capital for green projects.

Better measurement and disclosure are needed to overcome informational challenges, assess risks, and evaluate climate impacts.

But major limitations in the **quality**, **comparability**, and **consistency** of information remain.

Urgent need to ***strengthen the climate information architecture***. Three building blocks:

1. High-quality, reliable and comparable data
  2. A harmonized and consistent set of climate disclosure standards
  3. A broadly agreed upon global taxonomy
- IMF virtual workshop with experts from financial firms, corporates, public sector agencies, and standard setting bodies.

# 1. High-quality, reliable and comparable data

**Bridging climate-related data gaps** is challenging given issues related to data availability, reliability, and comparability.

- **Lack of granular, verifiable and forward-looking data**—in particular on firms' efforts to transition to a sustainable business model.
- Data gaps are worse for **SMEs** and for **firms in emerging market and developing economies**.
- **High costs of disclosure and third-party verification** → reduced incentives to issue ESG-friendly securities
- Insufficient clarity on what is required by stakeholders in terms of data/disclosure → **Data needs to be decision useful**.

It remains difficult to determine the impact of investments on non-financial objectives → **risk of greenwashing**

- ESG metrics can facilitate asset managers' investment decisions, but model uncertainty and lack of comparability can create a false sense of precision.
- The **verification and auditability of data** would improve its reliability and comparability.

## 2. A harmonized and consistent set of climate disclosure standards

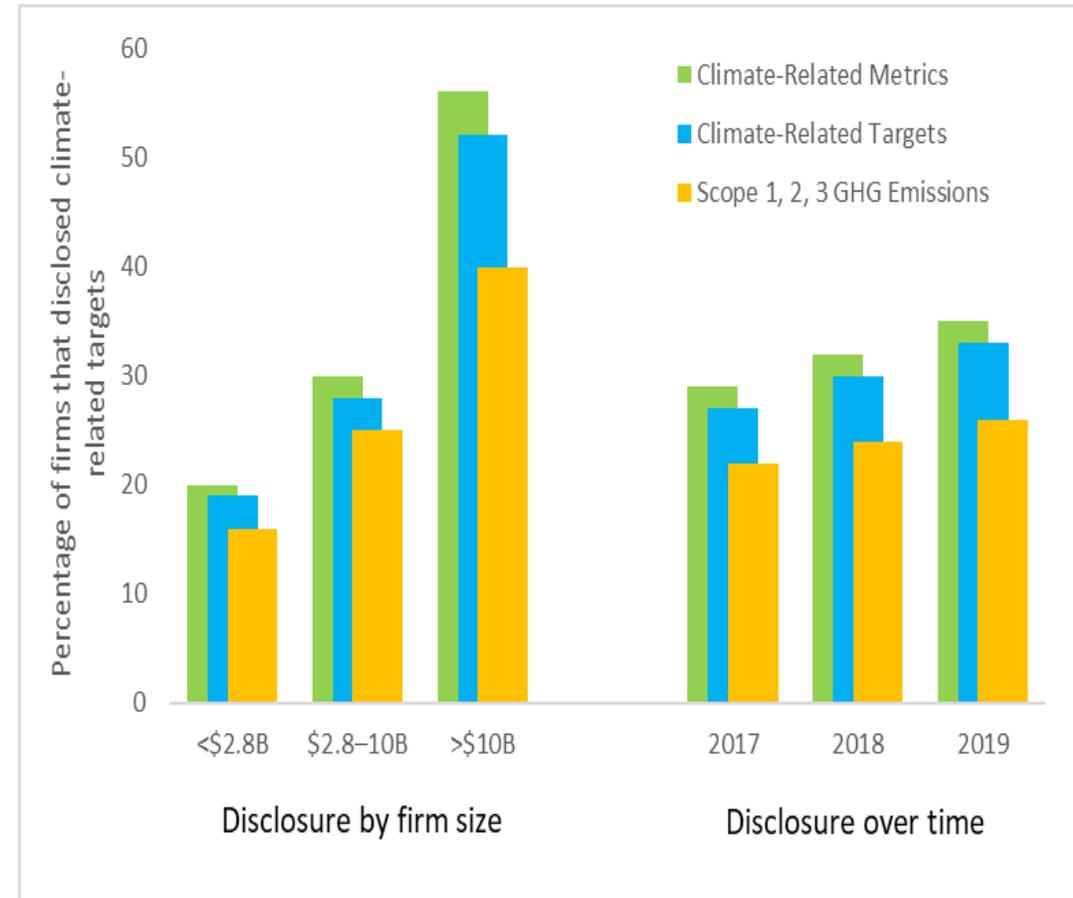
Non-financial disclosure of climate-related risks and opportunities is still in its infancy compared to the level and rigor of financial reporting.

Climate disclosure is a fragmented space with multiple frameworks, hindering consistency and comparability.

There is an urgent need for convergence towards a harmonized and consistent set of disclosure standards.

While reporting of climate metrics and targets, aligned with TCFD recommendations, has improved, the share of firms disclosing remains low, especially for smaller firms.

- The costs of disclosure can be substantial, especially for SMEs.



# 3. A broadly agreed upon global taxonomy

Taxonomies can play an important role in fostering sustainable finance markets and facilitate the flow of capital towards a more climate sustainable economy.

Taxonomies remain the least developed element of the climate information architecture.

A well-designed, globally agreed upon taxonomy would also lower transaction costs related to third-party verification and reduce the risk of greenwashing.

However, by focusing excessively on fully sustainable investments, taxonomies can fail to recognize transition efforts by firms and countries.

This is especially problematic in emerging markets and developing economies where investments for transition purposes are needed the most and can reap the largest benefits.

- The IMF strongly supports the work being done by the **Bridging the Data Gaps workstream of the Network for Greening the Financial System** (NGFS BDG) to produce a detailed list of data items that are currently missing and offer policy recommendations on how close data gaps.
- The **IMF's Climate Change Indicators Dashboard** aims to address the growing need for data in macroeconomic and financial policy analysis.
- **Technological solutions**, such as AI and open source, can be used for data collection & distribution and make data analytics available at scale.
- There is also a need to **develop proper information systems** on climate data, metrics and analytics—especially on the side of reporting firms.

# The way forward—A harmonized and consistent set of climate disclosure standards

- There is **an urgent need to attain convergence** in sustainability reporting standards.
- The IMF supports the IFRS Foundation's initiative to develop global sustainability reporting standards, with support from IOSCO and building on existing frameworks and initiatives, such as the TCFD and the efforts of the alliance of leading standard-setters on sustainability.
- Important that future disclosure frameworks **identify decision useful information, spanning three key objectives:**
  1. Accurate market pricing and risk assessment
  2. Financial stability monitoring
  3. Encouraging the transitioning towards a climate sustainable business mode
- The NGFS BDG workstream's user-centric approach informed by interactions with stakeholders can help inform such frameworks.

# The way forward—A broadly agreed upon global taxonomy

- Steps towards globally agreed taxonomies are probably less advanced, although efforts by the EU and other jurisdictions are notable.
- A minimum agreed upon global taxonomy and high-quality, reliable data would also enhance the effectiveness and quality of disclosures.
- Taxonomies need to be flexible enough to encourage transition efforts, recognizing differences between firms in emerging markets and advanced economies, as well as between SMEs and large corporations.

- There is increasing recognition that a clear **pathway towards consistent, timely and uniform implementation of internationally agreed climate disclosure standards** is necessary.
- This will necessitate **a substantial international commitment**, while being cognizant of regional, institutional, and legal specificities.
- In order to make real progress, **important implementations issues** need to be addressed, especially for SMEs and emerging markets.
- A **climate-first approach is appropriate** at this point, but **broader sustainability dimensions** (e.g., the loss of biodiversity) will need to eventually be considered.