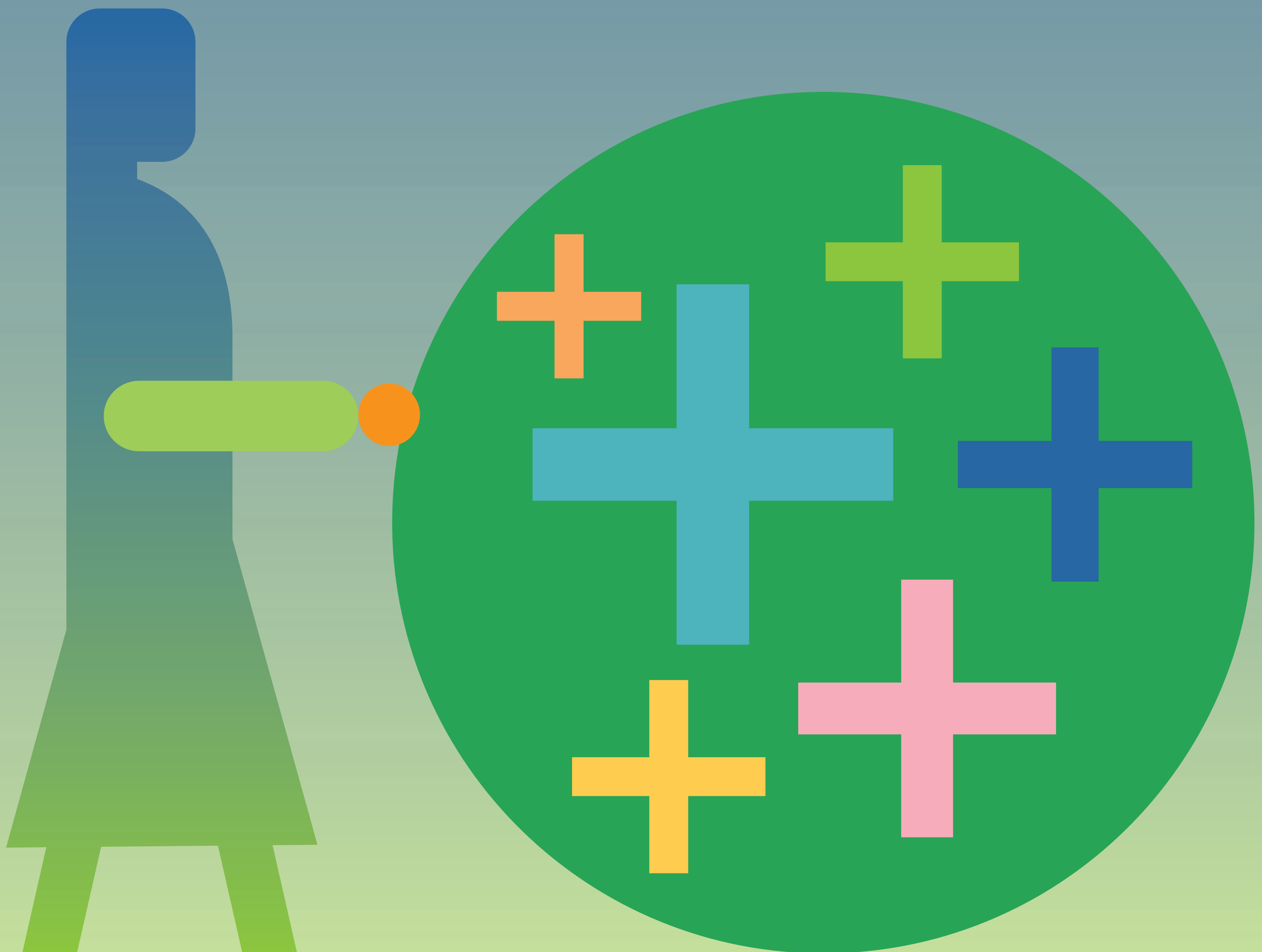
2023

The role of the **Chief Financial Officer** in driving low-carbon transition



Climate Bonds Initiative

UN Global Compact CFO Coalition for the SDGs

This report was prepared by the Climate Bonds Initiative

1. Foreword

Accelerating the transition to a low-carbon future

This guidance is meant to inspire, challenge and support Chief Financial Officers (CFOs) worldwide in their work to accelerate the low-carbon climate transition and implement industry-specific decarbonisation plans.

When the Sustainable Development Goals (SDGs) were launched in 2015 with a 2030 agenda, few could have imagined what lay ahead. The 2023 SDG mid-point stock take revealed moderate or severe deviations from the desired trajectory, highlighting an urgent need for increased efforts to achieve a sustainable future.[1]

At the entity level, action is no longer an option but an imperative. CFOs must seize this opportunity to anticipate industry level transition. As stewards of trillions of dollars of corporate investments worldwide, CFOs must apply vision and ambition to their planning process. They must bring long-term competitive advantage to business and demonstrate to their peers best practices to achieve the low-carbon climate transition.

CFOs face the unique challenges of satisfying the demands of consumers and clients, while amplifying environmental and social values and meeting the expectations of stakeholders and shareholders. To succeed, sustainability and finance must move in tandem towards the common goals of reducing greenhouse gas (GHG) emissions and decarbonising our planet.

We face unprecedented global challenges. Now more than ever, we must take urgent action for a better world, and CFOs have a huge opportunity to do their best. Let this paper be your guide.

Sanda Ojiambo
Executive Director and CEO of
the United Nations Global Compact

Sustainable finance as a driver for a sustainable future

The world of a CFO is about managing risks and taking advantage of opportunities.

Climate change presents a mix of both.

On one hand, the world faces an enormous challenge in addressing climate change; the Inter-Governmental panel on Climate Changes says that, if we are to avoid catastrophic climate change, we need to see as a minimum global cuts in emissions of 60% by 2035. In the meantime, the impacts of global warming (or “global boiling” as UN Secretary-General Antonio Guterres calls it) are being felt in increasingly severe heat incidents, storms, and floods. The World Meteorological Organisation now says the G20 target of holding warming to a maximum of 1.5°C will be breached in 2027; we now need to actively pursue sequestration solutions to get temperatures back down.

On the other hand, governments around the world have now committed to sharp emission reductions by 2030, and substantive activity is manifest in mini-booms created by the US Inflation Reduction Act, in the European Commission’s REPowerEU programme, and in Japan’s JPY1tn Green Transformation Programme. With clean power already generally cheaper than fossil fuel power, and electric vehicles mushrooming everywhere, it’s becoming clear that the shape of the global economy is transforming. The future has been decided; the only question now is the speed of change, and who will be winners and losers.

Investors are acutely aware of this; that’s driven the rapid growth of what is now a USD4.2tn sustainable debt market – often referred to as “the place to signal green change” – and the proliferation of pro-active shareholding and asset engagement strategies.

All companies are now expected to be developing transition plans (they’re becoming mandatory in Europe and the UK) to show how they are dealing with the pressures around climate change.

Trillions of dollars of capital are starting to flow to climate-fit investments; transition project and business plans stand to unlock tens of trillions.

CFOs are central to this.

Sean Kidney
CEO, Climate Bonds Initiative

2. Report Summary

Climate change touches on every aspect of life impacting on people's health and livelihoods, and extending to ecosystems, infrastructure, supply chains and the financial sector.

Companies have an important part to play in the low-carbon transition with the senior management team at the centre. However, the impact of the CFO merits further investigation.

This report, produced in partnership with the CFO coalition for the SDGs of the UN Global Compact, sets out to determine how CFOs can take a leadership role in their entity's transition to net zero, and seeks to identify best practices. It provides insights and makes a series of recommendations which could be used by other CFOs and sustainability officers looking to minimise the impact of their business on the climate and protect their revenues from the impacts of physical and transition risks.

To support CFOs, sector specific guidance is now available to assist companies to plan their decarbonisation so that it aligns with the commitments of the 2015 Paris Agreement and G20 on climate change.[2] Broader sector neutral guidance for corporates on how to develop their climate strategies and transition plans has also been published in the last two years, and financial instruments are available to support the implementation.[3,4,5]

The findings and recommendations presented in this report reflect the results of Climate Bonds first CFO survey. The survey was based on conversations with 50 respondents from 32 entities, conducted in the first half of 2023. Respondents represented companies operating in 21 GICS economic sectors from both emerging and developed markets (see Annex 2, page 18
). As of the end of H1 2023, respondent entities had collectively issued aligned green bonds with cumulative volume of USD29.7BN and SLBs with cumulative volume of USD49.2bn.

Respondents were either part of the CFO Coalition of the UN Global Compact or issuers of sustainability-linked debt.

Respondents were at different levels of their sustainability journeys, but all were keen to express their commitment to guiding their entities to reaching net zero.

About the CFO Coalition for the SDGs

The CFO Coalition for the Sustainable Development Goals (SDGs) was convened as a platform for CFOs to interact with their peers, investors, financial institutions, and the United Nations to share ideas, develop new concepts and frameworks, and provide recommendations to unlock private capital and create a market for mainstream SDG investments.

It stems from the recognition that, as stewards of trillions of dollars in corporate investments, CFOs are uniquely positioned to reshape the future of corporate finance and investment as a catalyst for growth, value creation, and social impact.

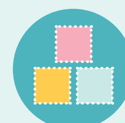
About the Climate Bonds Initiative

Climate Bonds Initiative (Climate Bonds) is an international organisation working to mobilise global capital for climate action. It promotes investment in projects and assets needed for a rapid transition to a low-carbon, climate-resilient, and fair economy. The mission focus is to help drive down the cost of capital for large-scale climate and infrastructure projects and to support governments seeking increased capital markets investment to meet climate and greenhouse gas (GHG) emission reduction goals. Climate Bonds conducts market analysis and policy research; undertakes market development activities; advises governments and regulators; and administers a global green bond Standard and Certification scheme.

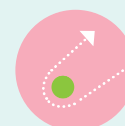
Key Findings

Climate Bonds conversations with respondents highlighted:

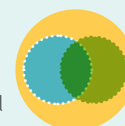
1. Competitive advantage opportunities. Low -carbon transition is an inevitable reality for entities operating in most economic sectors. An early, well planned, low-carbon transition strategy could provide a competitive advantage (commercial, financial, and regulatory).



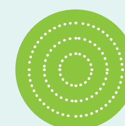
2. Building the business case. All climate-related investment and planning must be underpinned by a business case (at the company's hurdle rate). This robust business case should be supported by assumptions and scenarios that go beyond business as usual, with an emphasis on the price and consequences of inaction.



3. The CFO is pivotal to the implementation. CFOs have a crucial role in embedding climate information and action into the financial framework of a company and mainstreaming it throughout operations. Sustainable finance products (such as green and sustainability-linked bonds) are important tools to mobilise internal and external stakeholders.



4. Demand for transparency unlikely to subside. Investors are being clearer and more vocal in their climate transition demands. As experts in measurement, CFOs have the skills and responsibility to define, measure and communicate the progress of their company's transition and the related investment decisions.



5. Transition leadership versus status quo. CFOs can help their companies to be recognised as transition leaders in their sectors and monetise their transition efforts. The financial ecosystem (e.g., investors, rating agencies and others) is still working to fully understand the credibility and relevance of transition plans in different sectors and therefore give benefit to early movers.

3. Introduction

The CFO has a key role in managing the risks and opportunities emerging from the low-carbon transition because as the person ultimately responsible for capital allocation, they will influence whether to finance the activities related to the transformation. Uninformed risk management and delayed action may expose a company to physical, regulatory, and financial climate risks which could be negatively priced by investors, eroding the value of the company, and bringing long-term reputational damage. In contrast, anticipatory action can bring a sustainable, long-term, competitive advantage to businesses.

As an investor-focused non-profit working to set standards for credible climate action, Climate Bonds is at the intersection of finance and climate change. The scale and pace of the transition needs to rapidly increase to avoid the worst impacts of the climate crisis. Investors are increasingly demanding action, yet project pipelines and corporate transition plans remain lacking in ambition and volume. The CFO Coalition for the SDGs, a group of Global Compact companies and their CFOs are committed to align investments and financing with sustainable development priorities. In partnership with the CFO coalition of the UN Global Compact, Climate Bonds has explored the role of the CFO in the climate transition to identify opportunities for driving progress and overcoming barriers to change.

The emergence of the sustainable finance market and climate policy disclosure frameworks are an opportunity for CFOs, heads of finance (and Chief Sustainability Officers (CSOs)) to come forward and guide their organisations towards climate-aligned business models. There are some distinctive CFO skills and responsibilities that make them the ideal candidates to both guide and facilitate the implementation of the transition to a low-carbon economy. As financial markets increasingly integrate sustainability metrics in corporate assessment, the CFO needs to become an expert in sustainability topics (of which climate is a major component) including all sustainability-linked finance instruments.[6] These instruments can be effective tools to signal, influence and reduce the cost of capital for a company.

This research is intended to inspire those who have just started or who will shortly embark on the journey to design and implement their transition plan, supporting these emerging actors to pre-empt challenges. The interviews sought to capture impediments and explore solutions. One clear message that was repeated during the interviews was that the low-carbon transition is unavoidable. However, despite the challenges, every company should start the process as soon as possible and make it a source of competitive advantage.

Bruno Calo Fernández
CFO AstraZeneca Portugal.

"In the same way as it is critical for a CFO to continuously keep up to date with the latest developments in IT, digital systems, and AI, it is also important for the CFO to upskill on GHG accounting and develop know-how on those technologies that have the potential to not only accelerate the decarbonisation journey of the organisation, but also support the enterprise to drive significant bottom line improvements."

Fernando Tennenbaum
CFO, Anheuser-Busch InBev.

"As a company, we seek opportunities to create value in a sustainable way, which is consistent with and enhanced by accelerated decarbonisation efforts. It just makes sense for our business."

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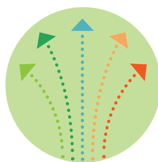
4. Why start a transition journey?

Transition is risk management



The Taskforce on Climate-related Financial Disclosures (TCFD) is a guiding framework that establishes common principles for how entities should provide information on the risks and opportunities associated with Climate change. The TCFD explains:

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations.[7]

Risks are associated with both climate action and inaction; however, the risks of inaction continue to increase. These are clearly important for high-emitting and hard-to-abate sectors, but other sectors are also under increased scrutiny considering more sophisticated analysis from investors and improving transparency in supply chains. Although a more systematic approach is required, capital markets are increasingly integrating transition risks into credit risk analysis and financial analysis, leading to more accurate pricing of the risk.[8] ESG assessment providers and some rating agencies are now providing net-zero assessments of companies.[9]

More broadly, according to research published by Moody's in October 2022, 'sectors facing very high or high environmental credit risk now account for USD4.3tn in rated debt, up 27% from USD3.4tn in December 2020 and up 109% from USD2tn in November 2015, at the time of the Paris Agreement's initial unveiling'.[10] Those sectors are not limited to coal, oil and gas but also include the industrial sectors and agriculture, among others.

Corporate and personal legal risks are also increasing because of inaction with recent research from LSE recording more than 200 legal cases in 2022.[11] Personal liability is at stake too, for example, with the action by an NGO and a group of institutional investors in 2023 to sue the Board of Directors of Shell UK for climate inaction.[12] Although this action failed at an early stage of litigation, the reputational damage has cut deep.

The other side of risk is opportunity. Respondents have described how integration of a credible net-zero transition plan into the business strategy can help to build a competitive advantage, increase operational efficiency and reduce a company's cost of capital (see section on pricing).[13] This is not limited to heavy-emitters, as many sectors can harness a competitive advantage from low-carbon practices and decarbonised supply chains (see below discussion on scope 3 emissions) in response to rising demand for low-carbon products across the economy.

Figure 1. Credit risk faced by different sectors

Sector	2015	2018	2020	2022
Coal Mining and Coal Terminals	Very High Risk	Very High Risk	Very High Risk	Very High Risk
Chemicals	High Risk	High Risk	High Risk	Very High Risk
Mining- Metals and Other Materials, excluding Coal	High Risk	High Risk	High Risk	Very High Risk
Oil & Gas- Independent Exploration & Production	High Risk	High Risk	High Risk	Very High Risk
Oil & Gas- Refining & Marketing	High Risk	High Risk	High Risk	Very High Risk
Oil & Gas- Integrated Oil Companies	High Risk	Moderate Risk	High Risk	Very High Risk
Unregulated Utilities and Power Companies	Very High Risk	Very High Risk	High Risk	High Risk
Automobile Manufacturers	High Risk	High Risk	High Risk	High Risk
Building Materials	High Risk	High Risk	High Risk	High Risk
Steel	High Risk	High Risk	High Risk	High Risk
Shipping	Moderate Risk	High Risk	High Risk	High Risk
Surface Transportation and Logistics	Moderate Risk	High Risk	High Risk	High Risk
Airlines	Moderate Risk	Moderate Risk	Moderate Risk	High Risk
Oil & Gas- Midstream Energy	Moderate Risk	Moderate Risk	Moderate Risk	High Risk
Oil & Gas- Oilfield Services	Moderate Risk	Moderate Risk	Moderate Risk	High Risk
Protein and Agriculture	Low Risk	Moderate Risk	Moderate Risk	High Risk
Total Debt (USD Bn)	2.0bn	2.2bn	3.3bn	4.2bn
Percentage of Total Debt	3%	3%	4%	5%

Very High Risk   High Risk   Moderate Risk   Low Risk

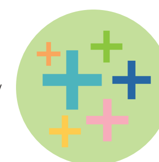
Source: Moody's Investors Service

What is a low-carbon climate strategy?

Simply put, a low-carbon strategy is the business strategy to reduce GHG emissions to net-zero by 2050 or before.[14] The primary corporate tool to deliver on the strategy is the transition plan for which guidance is increasingly available. Transition plans have some standard features that need to be underpinned by a framework for credibility and based on science and transparency.

Although regulatory guidance on transition plans is in its infancy and mainly focused on disclosure, expectations for the management of climate risk are building globally. Banks in Europe must demonstrate to the regulator how they manage climate risk, while the development and disclosure of transition plans is expected to become mandatory in the UK, US and EU. Additionally, the G7 has endorsed disclosure guidance from the IFRS International Sustainability Standards Board (ISSB).[15]

The role of the CFO



Sustainability issues which fall under the remit of the CSO, need to be prioritised by the CFO as they clearly relate to material business risks and opportunities. Pressure is mounting from investors (Engine No. 1 and Exxon is a case in point) and other actors willing to use litigation against companies that are not embracing their climate action responsibilities.[16]

In addition, pressure is increasing from the dependencies within a company's ecosystem. During our interviews, several respondents mentioned joint-venture projects that were derailed or delayed because one of the companies involved suddenly had to implement net-zero practices such as electrification of operations, disrupting the whole project both operationally (new planning) and financially (new economics). Consumers are also making their voice heard as they become increasingly more aware of their consumption-driven carbon footprint.

According to the consultancy company PWC there are four reasons CFOs play a role, which are listed below with additional context (in bold) that was collected during interviews.[17]

The CFO plays a key role in the low-carbon transition because:

1. The link between enterprise value and financial value stands with CFOs. **The CFO needs to have a vision for the company's future business model under different scenarios**.

2. CFOs can drive better business outcomes and capital allocation by bringing ESG into their decision-making process. **Strategic decisions will have a cost and benefit. Managing and quantifying those costs and benefits is key and falls within the remit of the CFO**.

3. A credible ESG story is essential for capital raising and engaging with the market. **In addition to capital raising, reporting is another situation when a company needs a clear story, and both sit with the CFO. Reporting is a key CFO responsibility due the growing importance of non-financial disclosures and the need to keep coherence between financial and non-financial information**.

4. CFOs need to have in-depth knowledge of ESG strategies to balance the interrelationships between financial and sustainability measures.

In addition, CFOs have the power and influence to drive the transition, especially given that any new project will likely require financing. Several respondents described how CFOs had leveraged their unique position to lead the transition or to proactively partner with their colleagues in the sustainability department.

Pedro Freitas
CFO, Braskem.

"Given the pivotal role of the CFO in funding the low-carbon transition, it is important that the company's culture allows the CFO to play a role in the strategy of the company".

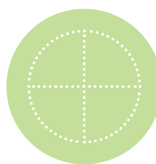
Nicole Della Vedova
Head of Corporate and Structured Finance, Enel.

"There is not a sustainability and a financial plan. There is one integrated plan".

Luca Passa
CFO, SNAM.

"Having board members who are knowledgeable about the low-carbon transition is immensely beneficial, as their expertise complements the management's efforts in driving the company's strategy towards reducing the carbon footprint".

Tackling sector and regional differentiation



The focus of this report is the role of CFO across industries and regions, but regional and sector specific context need to be considered.

Respondents from the most polluting industries had advanced knowledge

A first clear differentiation factor between sectors is the level of carbon intensity, and its materiality. Respondent CFOs in more carbon intensive sectors were generally more confident when discussing decarbonisation strategies. For example, companies operating in the cement industries tended towards a sophisticated and advanced approach to the integration of carbon emissions in their overall strategy such as the use of an internal carbon price.

In contrast, the less directly carbon-intensive industries (in terms of scope 1 and 2 emissions) often had the challenge of dealing with supply chain and product use scope 3 emissions. This was the case for the oil and gas, financial services, and agriculture sectors where scope 3 often represents over 90% of the emissions. Respondents highlighted that these are increasingly being scrutinised by investors and consumers and need more attention, as corporate sustainability frameworks have been less focused on scope 3 emissions so far.

According to data from Climate Bonds, just 22% of firms that have issued SLBs included scope 3 emissions in their targets.[18] This topic is explored in more depth later in the research. Other important sector considerations include the ease of transition (based on cost of and availability of technology) and the speed of transition. For example, electricity generation and the agriculture, forestry, and land use (AFOLU) sectors need to reach net-zero before 2050 whilst cement production may be slower given the technological challenges.

Transition plans can be adapted to apply globally

Many stakeholders have argued that transition is more challenging in emerging economies, which require more flexibility. However, most respondents had a global footprint with an international investor base with net-zero commitments. Their decarbonisation policies therefore tend to be applied globally. Additionally, even in an EM context, respondents explained that companies with advanced transition plans were able to effectively decarbonise despite the more difficult environment. It is therefore both possible and necessary for EM located companies to invest in reducing emissions despite the challenges.

Triggers to strategic transition plans

Respondents emphasised that committing to a transition plan was a non-linear process. Some of the trigger points leading them to pivot to a strategic low-carbon transition plan were:

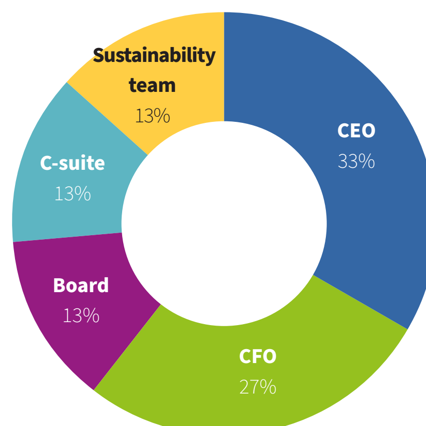
- The push from investors.
- A defining event/moment in the history of the company (such as a disaster).
- The appointment of a new CEO or CFO.
- Pressure from civil society.
- Regulatory pressures (i.e., carbon pricing) or incentives (i.e., subsidies).
- The launch of a new technology or competitive pressure from peers.

Those triggers often led to discussions on the overall strategic direction and vision that the company wanted to pursue.

Respondents highlighted that the convictions and the leadership of individuals were very important to setting and implementing ambitious net-zero targets. In 60% of cases, that impulse stemmed from the leadership of the CEO or CFO. However, regardless of who is spearheading the transition internally, the CFO will lead its execution, validate the feasibility, create the financing plan, construct the narrative, raise the capital, and supervise the reporting on the plan and its progress.

A transition plan is a company-wide effort that goes beyond company management. In fact, supportive and knowledgeable board members (including independent directors) are extremely important to get an ambitious decarbonisation plan adopted. However, the overarching theme is the importance of the leadership of individuals and their intrinsic motivation, this means that the individual is a critical driver of change and should not be held back by corporate or societal inertia.

Who is spearheading the transition plan?



Source: Climate Bonds Initiative

5. Recommendations and challenges

There was broad consensus among respondents around three main recommendations and three key challenges associated with the decarbonisation journey.

Recommendations

Respondents highlighted recommendations falling into three categories.

1. Start the decarbonisation journey to gain a competitive edge

Companies should deploy decarbonisation as a strategic competitive advantage and the process of decarbonisation should start as soon as possible. Starting earlier helps spread the cost of the transition over a longer timeframe, as well as to preserve and create value.

RECOMMENDATION
Start the decarbonisation journey to gain a competitive edge, preserve and create value
Company case studies: **Danone**
TCFD & ISSB related themes: **Strategy & risk management, metrics & targets**

Top tips

- Competitive advantage includes operational expertise, clarity over supply chain risks and opportunities, bargaining power with policymakers, better dialogue with investors, and technological and product mix innovation.
- Decarbonisation plans can entail significant cost and opportunities, both financially and in time, and require continuous refinement.
- Investors will also continuously push the boundaries and require consistent improvement.

Pedro Christ
CFO, Beontag.

"Strategic climate-aligned investments can promote a competitive edge and create better shareholder value. Investing in technologies, services, and products with reduced impact on the environment is one of the ways of contributing to a low-carbon transition".

Figure 2. Benefits of early climate action

Note: 1. Based on €75/tCO_2 Carbon price assumption for 2030 Source: World Economic Forum

The path to decarbonisation can be very long and may require companies to constantly push the boundaries. Some companies do not feel the sense of urgency if there is no formal ESG rating or the absence of a transition plan is not yet fully included in cost of capital. However, when regulators, investors or customers do require detailed emission reduction plans, it will be too late, or it will be more costly.

For example, pivoting investments into producing renewable energy for a utility company 10 to 15 years ago required a strong vision with a long-term focus. An executive had to balance the pros and cons of an investment, including uncertain long-term economics, with a vision of the power markets 10 to 20-years down the line. The technology was unproven (for example, wind factors were a question mark), risks of cost overrun were high, and companies had to build their operational expertise. Fast-forward 15 years, the technology has proven itself, there is clear demand and need for renewable electricity, and the economics are favourable. That early pivot by some of those companies required a leap of faith (though based on data and assumptions about the future) with a key assumption being that business as usual (use of fossil fuel) was seriously under threat.

This respondent CFO feedback is validated further by World Economic Forum research which indicates climate leaders gain competitive advantage across a number of business metrics (figure 2).

CFO insight: Danone's expected business value from decarbonisation plan

Before embarking on a decarbonisation effort, the CFO should quantify the expected value generated by the effort and required investment. French multi-national food products manufacturer **Danone** expects that its decarbonisation efforts and push towards regenerative agriculture will generate business value for the company in three different ways.

1. More sustainable farming practices will help increase yield efficiency from milk production over time, which will make farmers and the company more competitive.

2. As the company supports farmers to embed more sustainable farming practices, the relationship between farmers and the company will strengthen. Those stronger relationships can help secure milk sourcing, which is a competitive advantage for the business in the form of reliable supply chains.

3. The attention to farmers and their communities can help improve the company's brand.

Expected business value from decarbonisation plans
Efficiency (feed, yield) = competitiveness & licence to grow
Resilience of milk sourcing = Business continuity
Brands and sales = Licence to sell

Source: Danone

Targets and ambition need to keep evolving. The process of decarbonisation is a long journey and requires the CFO and executive team to adjust, adapt as they learn, and keep innovating. The plan and strategy need to be in constant evolution towards the next frontier. From scope 1 and 2 to scope 3, from scope 3 to the assessment of the interdependencies with broader environmental and social issues, such as natural capital or the just transition. If tackling scope 1 and 2 ten years ago was innovative, today this is not enough. In the current context, scope 3 emissions and the consideration of nature are regarded as the next frontier.

That evolution is also being reflected in funding products offered by capital markets. Beyond Use of Proceeds (UoP) instruments like green loans and bonds, today sustainability-linked bonds (SLBs) and loans (SLLs) can embed scope 1, 2 and 3 targets into the cost of capital.

2. Make a business case around a decarbonisation plan

A business case at the company's hurdle rate needs to be built. For this to succeed, short, medium, and long-term scenarios that highlight both the cost of action and inaction need to be presented. These include the business opportunities and risks such as increased revenues, higher initial outlays, or higher demand for products and services considered green.

RECOMMENDATION

Make a business case around decarbonisation-related investments

Company case studies:
Danone, Buzzi Unicem

TCFD & ISSB related themes:
Strategy & risk management

Top tips:

- Decarbonisation or transition plans need to be embedded into the business plan.
- The decarbonisation plan and capital requirement need to be underpinned by a financial return at the company's hurdle rate.
- A detailed materiality analysis to the enterprise value is required to fully assess the short-, medium-, and long-term risks and opportunities from climate transition and physical risks.
- Scenario analysis, with assumptions beyond the status quo, is crucial to understand and validate the business case for decarbonisation. The cost of inaction should be quantified.
- Convert transition, and physical risks and opportunities, into metrics that can be measured and translated in the scenario analysis.

Table1. Example of possible trade-off considerations for the cement industry

	Trade-offs	
	Negative	**Positive**
Business as usual scenario	• Margin compression from higher carbon price • Loss of revenue from low-carbon cement demand • Regulatory risk for high carbon products • Exposure to litigation • Stigmatisation of sector/company • Increased stakeholder concern • Negative stakeholder feedback	• Lower capex spend • Lower leverage • Requires less effort/time from the management team to change the business
Decarbonisation scenario	• Significant capex spend • Increase in leverage • Some uncertainty about the payback • Uncertainty around carbon prices • Possible unsuccessful investment in innovative technologies	• Capturing emerging demand for high margin/low-carbon cement • Better competitive position to reflect shifting demand. • Potential for lower operating expenses (e.g., through efficiency gains and cost reductions) • Licence to operate • Potential for lower cost of capital • Capturing tax or other (for example, contracts for difference) regulatory incentives

CFO insight: Danone's validation checklist for decarbonisation-related capital expenditure projects

1. There is no single approach for businesses to assess whether capex projects have both decarbonisation and financial benefits. **Danone** uses a checklist to validate any decarbonisation-related capital investment.

On the left hand-side (pre-requisites for the business case), requirements include avoided future capex or supply optimisation. The criteria for the business case validation also includes several GHG-related dimensions.

Business case checklist for decarbonisation-related capex

Pre-requisites for Business Case	Criteria for Business Case Validation
• Brand & commercial levers activated (leverage topline) • Supply optimisation • Operational efficiencies captured • Avoided future opex evaluated ("cost of inaction") • External co-financing formalized assessment • Eventual validation by a global function (is required by sustainability governance)	• Net investment (after 3rd party financing) • Net GHG cost effectiveness (tCO_2e reduced/year) • GHG reduction contribution against the different scopes • License to operate dimension • Financial payback including "internal CO_2eq tax" • "Danone Impact Journey" impact

Source: Danone

CFO insight: Buzzi Unicem's payback period for its decarbonisation measures

The assessment of the profitability of GHG reduction related capex projects will depend on several assumptions including the payback for the different projects and technologies

	Payback duration
Clinker content in cements	<5 years
Alternative fuels with biomass content	<5 years
Fossil fuels with lower emission factors	5-15 years
Efficiency in electric and thermal energy consumptions	5-15 years
Decarbonisation of electricity	5-15 years
CCU/S2	< 5 years

Source: Buzzi Unicem.

Respondents highlighted that any decarbonisation plan needs to be validated by a business case with a hurdle rate in line with any other capex project. This is especially relevant for more transformative capital-intensive decarbonisation plans where the returns on investment are not always obvious from a business-as-usual perspective. Here, scenario analysis with long-term assumptions that quantify the expected market changes (CO_2 prices, demand, margins, etc.,) should be an important tool.

The scenario analysis should include at least two: the business-as-usual and the decarbonisation scenario, both offering trade-offs. Those qualitative trade-offs need to be quantified to make those strategic decisions.

Scenario analysis is a useful tool to understand trade-offs and assess how, and which levers a company can pull to create value and gain further competitive advantage in a scenario where climate risks (transition and physical) keep increasing. These scenarios and trade-offs (and the key assumptions therein) need be to be carefully discussed by the Board.

3. Get internal and external stakeholder buy-in

CFOs and the management team must secure broad buy-in. CFOs should leverage their high-profile platform as a key decision-maker in resource allocation to influence internal stakeholders. CFOs can use investor calls to present their decarbonisation strategies, especially in capital-intensive businesses.

RECOMMENDATION
Get internal and external stakeholder buy-in
Company case studies: **Autostrade Per L'Italia, EBRD, Astrazeneca Portugal**
TCFD & ISSB related themes: **Governance**

Top tips

- Ambitious decarbonisation plans are strategic and require buy-in from all stakeholders.
- Employees across the firm need to embrace the plan as ultimately, they will be delivering it on the ground.
- Investors need to understand the costs and how the planned decarbonisation investments benefit the company's business model over different time horizons.
- CFOs, given their role in capital allocation, can be very persuasive both to employees and investors.

Effective communication with all stakeholders, both internal and external, is important to achieve buy-in and facilitate adoption of the company's decarbonisation strategy. Here again, the CFO has a critical role to play. In the following sections, communication strategies and case studies for employees and investors are explored. Specific techniques to engage the upstream supply chain will be addressed in the specific section on challenges (scope 3).

Internal - involve employees at every stage

The implementation of a net-zero plan will entail new ways of working and new operational processes. This requires acceptance from the workforce that will ultimately be delivering on the plan. Those new processes might be seen as disruptive from business as usual, which, coupled with some uncertainty regarding the implementation of a plan might make it hard to deliver. The uncertainty might be around the future demand for a product, the ability of a company to procure certain types of products from its supply chain (for example low-carbon steel), regulation, or the viability of a technology.

It requires effort to convince internal stakeholders who are used to a way of working. Possible solutions mentioned by respondents included the governance, tone from the top, the internal storytelling and benchmarking with other companies. The CFO (as per their position on the Board and the steward of value creation in the business) and the broader finance team can play a decisive role in the internal communication strategy bringing gravitas to the initiative.

Respondents noted the need for strong internal collaboration. Working with the business and operational teams is helpful for two reasons:

1. The CFO can leverage their role in capital allocation for the company to give more credibility to the message and narrative delivered to the business.

2. The partnership with the business is crucial to design and implement the plan. Ultimately it is the business that will be delivering the decarbonisation and bringing forward innovative decarbonisation solutions and practices.

Laura Palmeiro
Sustainable Finance Director, Danone.

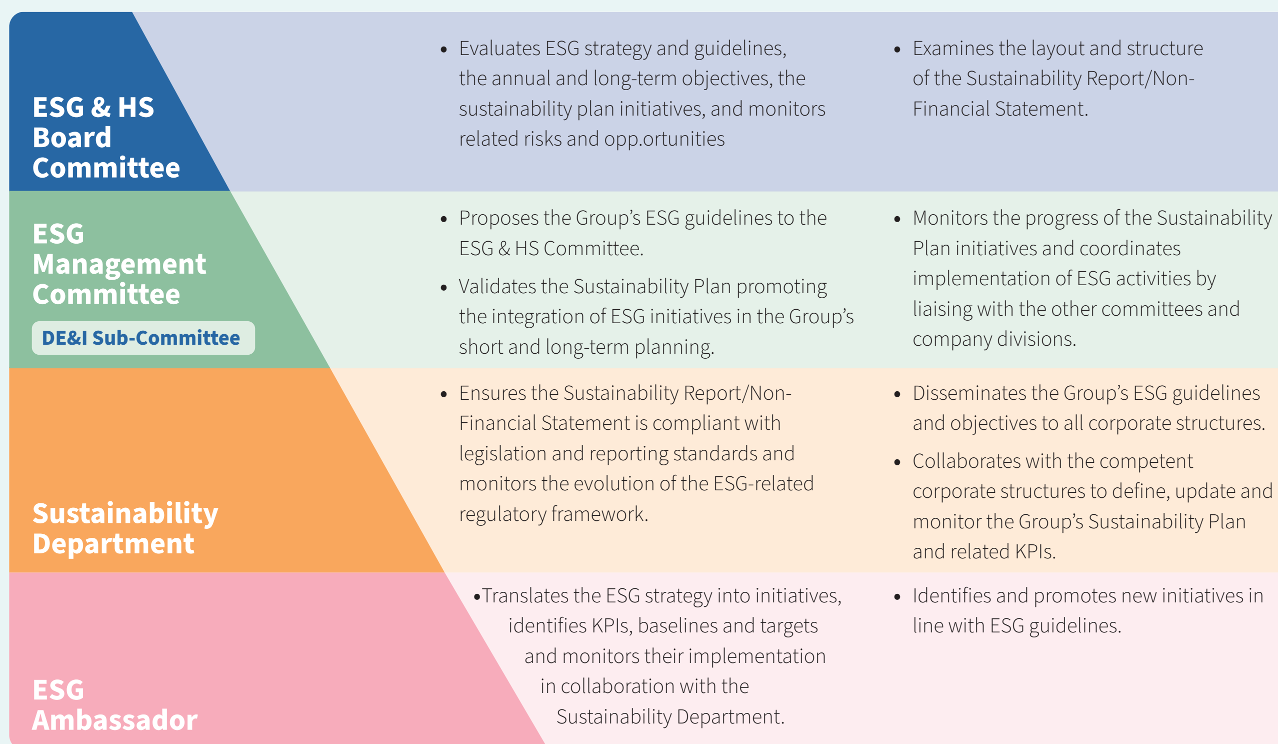
"Given the new scope of responsibilities attributed to the CFO, it would be fair to say that this role should be renamed Chief Value Officer, understanding by this that they would be responsible for measuring and tracking value creation not only in the financial field but also environmental and social values".

CFO insight: Autostrade Per L'Italia ESG ambassador

At **Autostrade Per L'Italia** (ASPI), the CFO is directly involved in the internal engagement strategy as the CSO reports directly to the CFO. In 2023, ASPI priced a EUR750m (USD816m) SLB maturing in 2031. The coupon repayments were tied to environmental KPIs (these include for example scope 1, 2 and 3 upstream emissions) providing a natural incentive for the CFO to ensure that the targets would be achieved by the business.[19]

To translate the overall ESG objectives of the firm into concrete and recognisable metrics and actions by the business units, the company created the role of ESG ambassador. ESG ambassadors are managers focused on the implementation of ESG projects, scouting for new possible initiatives and promoting the ESG culture of the Group. They implement ASPI's ESG projects in accordance with company initiatives and goals. They also coordinate with the rest of the Group to ensure awareness and education throughout ASPI. This structure allows for consistent and dedicated messaging and support to be provided across the company on ESG goals, and progress on delivering them.

Autostrade Per L'Italia ESG governance.



External – keep investors informed

Investors are becoming increasingly sophisticated in their understanding of company decarbonisation. Many asset managers and asset owners have dedicated funds for decarbonisation strategies, partly because of their own commitment to decarbonise their investment portfolios. Several initiatives and alliances have been launched in the last two years gathering asset owners, asset managers and banks, among others, to publicly commit to decarbonise their portfolios. Those commitments include short-, mid-, and long-term 2050 targets. For example, the net-zero asset-owner alliance (NZAOA) initial decarbonisation targets are set for 2025-26. Investors will keep applying pressure to investee companies given that they are themselves on the hook to decarbonise. Respondents stated three things that investors look out for:

1. The decarbonisation plan is an integral part of the business strategy. That plan (and underlying targets) would then ideally be made public. One of the attractions of SLBs is that emissions reduction targets become public and contractual commitments.

2. Access to detailed reporting on the above. Respondents said that the transition plan details can sometimes be difficult to track or find across the reports being published by a company. A detailed capex plan supporting the wider transition plan is also critical but is a rare find.

3. A CFO with a good grasp on a well-designed transition plan, including the relative climate ambition levels of performance targets and KPIs. CFOs can educate investors about how the company makes decisions on decarbonisation investments. The business case for those investments is not always straightforward and requires a strong vision and a calculated leap of faith. An experienced CFO, wearing the hat of guardian of capital allocation, can play an important role in communicating this.

CFO insight: Reporting progress, the EBRD framework and expectations

The **European Bank of Reconstruction and Development** (EBRD) approach to alignment with the Paris Agreement is guided by an approach agreed by the multilateral development banks (MDBs). For Paris Agreement alignment of indirectly financed investments, the EBRD's approach foresees four pillars:

1. The assessment of the counterparty's commitment to the Paris Agreement.

2. A review based on eligibility criteria for the UoP for financial institutions or of the potential pipeline of transactions for equity funds.

3. A review of the counterparty policies and climate related business practices.

4. The eventual formulation of a transition plan and its monitoring, if required.

The methodology describes the process and content of the pillars, including the minimum requirement of a transition plan, when it is required.[20]

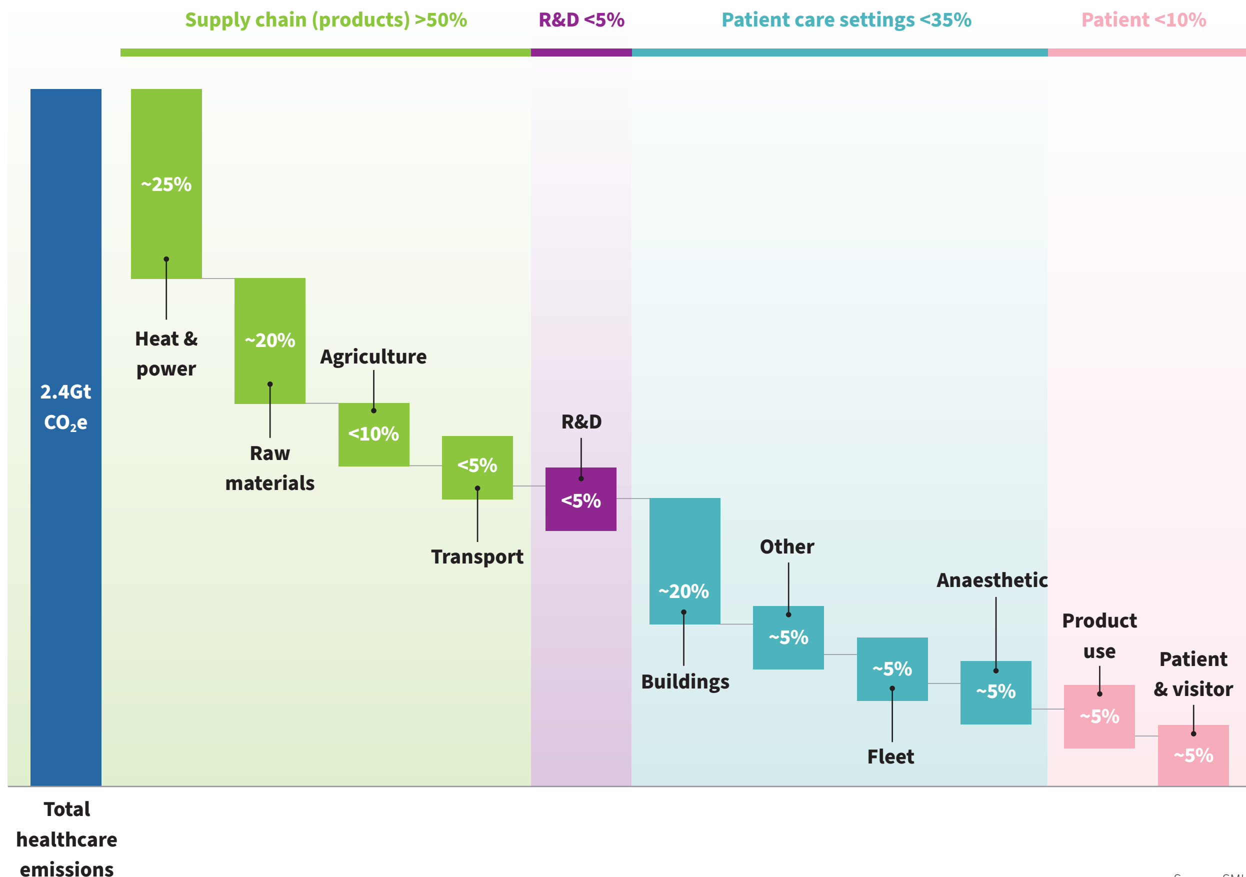
CFO Insight: Collective action from the SMI Health Systems Task Force

The healthcare sector is responsible for about 4% to 5% of total global emissions, of which over half (see below) originate in the supply chain.[21] In order to address the challenge collectively, the **Sustainable Markets Initiative** (SMI) Health Systems Taskforce, led by global healthcare companies, has issued an open letter to their suppliers to set minimum climate and sustainability targets, the "minimum supplier targets".[22,23] These include, among others:

- Assess and disclose scope 1, 2, and 3 emissions by 2025.
- By 2025, commit to set short-term targets aligned with the 1.5-degree pathway determined by the Science Based Targets Imitative (SBTi).

The SMI Health Systems Taskforce was launched at the 26th United Nations Climate Change Conference (COP26) with the central aim of accelerating the delivery of net-zero, patient-centric, health systems that improve individual, societal, and planetary health. The public-private partnership brings together CEOs and leaders from AstraZeneca, GSK, Merck, Novo Nordisk, Roche, Samsung Biologics, Sanofi, the Karolinska Institute, National Health Service (NHS) England, the Sustainable Healthcare Coalition, UNICEF, the University of Pavia, and the World Health Organization (WHO).

Healthcare sector emission sources.



Source: SMI.

External – cross-sector partnership & buy-in

Investors increasingly require detailed decarbonisation plans to include scope 3 emissions.

However, reducing scope 3 emissions can be daunting without a collaborative approach targeting the sector and its supply chain. Such an approach normally requires common standards to facilitate scalable, cross-industry action.

Setting a common ambition is a critical step yet must be followed by action. It is common practice in several industries, including pharmaceuticals, for country or area-level CFOs to also lead supply chain operations, given their significant financial impact and the link between critical suppliers with contracts and finance.

Such CFOs play a key role in implementing sustainability commitments, engaging with external stakeholders, including their peers from across the industry, and deploying sector-wide projects that can help each national health system to accelerate the transition to net zero.

Sustainable finance can catalyse a transition journey

CFOs today have many sustainable finance tools they can use to trigger strong internal momentum towards decarbonisation. In fact, the internal mobilisation is often quoted as one of the benefits of the implementation of these instruments. These include thematic loans and bonds or other types of financing including supply chain financing.

The path to decarbonisation at the Warehouse Group, the largest retail group in New Zealand, was initiated by the CFO and finance team (see box opposite). In the example, the company started its decarbonisation journey by issuing an SLL, for which the CFO was responsible. As the SLL required data tracking the company's decarbonisation, an ESG committee was created to oversee the data provision and monitor progress. Given their role in monitoring and reporting to the originating bank, the CFO has a key role in the committee. The decarbonisation commitment was later expanded by the CEO into a broader net-zero plan with public commitments.

CFO insight: Translating the global commitment into practical actions

AstraZeneca Portugal, and its CFO, are putting shared climate targets into practice by leading a country-wide initiative to bring stakeholders from the Portuguese healthcare system together to work collectively on the reduction of GHG emissions across the country's health service. This initiative has three steps:

1. Mapping out emissions across the health service ("CO_2 Patient Care Pathway")

AstraZeneca Portugal established a public-private partnership with two major national healthcare institutions (ULS Matosinhos Porto and Hospital de Braga) to deliver a CO_2 Patient Care Pathway study, identifying major sources of emissions in the Portuguese health system, and measuring scope 3 emissions.

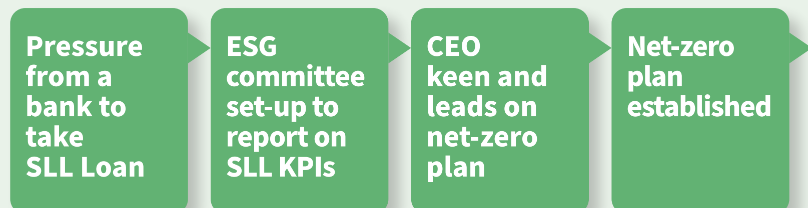
2. Gaining stakeholder buy-in (Annual Net-Zero Health Systems Summit)

AstraZeneca Portugal is organising an Annual Net-Zero Health Systems Summit where the outcome of studies such as the CO_2 Patient Care Pathway are presented to all NHS stakeholders. This contributes to science-driven consensus between industry and public institutions on the topic of healthcare decarbonisation, and educates stakeholders on the pathways to reaching net-zero patient care.

3. Providing solutions and targets by supply chain areas

AstraZeneca Portugal is identifying different focus areas (energy production, transportation, consumables, patient care settings, etc.,) to ensure that key stakeholders are aligned on specific reduction targets. Such collective action will accelerate the transition to net-zero healthcare.

Figure 3. Finance as a catalyst for net-zero plans



Overcoming Challenges

Despite the opportunities, respondents highlighted many challenges that any CFO will likely face. Those challenges can be broadly grouped into three categories, each of which is addressed here.

1. Identification and calibration of the goals

TCFD theme: Metrics and targets

Respondents emphasised that the most important point of a decarbonisation journey is to get started. Setting goals and targets is company specific according to the sector, geography, stage of maturity, etc. The starting points and triggers (see above) vary by company. As noted above, sustainable finance products are powerful catalysts to either start or turbo-charge the journey, and the CFO can take the lead in this process.

Luca Passa
CFO, SNAM.

"You may make errors at the beginning, but you need to start somewhere. From those errors you then improve your own target setting. It is a learning process"

Top tips:

- Get started – there is plenty of generic and sector specific transition plan and performance target guidance.[24]
- Focus on internal communication as much as on investors (see recommendation #3 above).
- Use credible science-based targets and pathways provided by Climate Bonds, SBTi, ACT initiative.[25]
- Tolerate some uncertainty where it is difficult to know exactly how a target will be achieved.

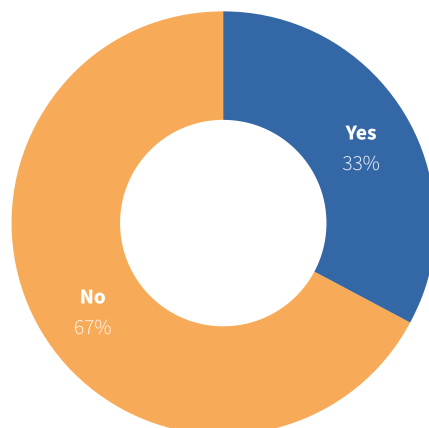
Clearly linking financial instruments and business plans to the delivery of these targets (as in SLBs or SLLs), can be a difficult exercise. This may be because the cost and impact of different decarbonisation levers is not always well understood at the start of the journey when setting ambitious and stretching targets. The CFO and their team will generally be very focused on the calibration of those targets (especially when these are linked to a financial outcome) and try to guide the business towards an acceptable, achievable, yet credible target.

Respondents indicated that a workforce confident in achieving a target is the most important factor for successful target setting. Hence internal communication is paramount (see recommendation #3 above).

Best-in-class organisations in decarbonisation generally opt for Paris-aligned, 1.5ºC science-based targets. Climate Bonds has developed science-based decarbonisation pathways and climate-aligned activities for 19 sectors as part of its sector Criteria. Companies can use these as the basis for Certification for thematic bonds and loans as well as certifying the transition plan of the entity.[26] The SBTi also supports companies in their targeting efforts by validating companies' pathways under 1.5ºC or well-below 2ºC As of end of July 2023, 4,918 companies had their target validated of which 3,278 had science-based targets.[27]

Once targets have been established, decarbonisation levers should be chosen and areas of the business that need to be adapted should be identified. The level of detail needed will differ for long-term targets, relative to short- and mid-term targets so having a clear vision of how to achieve and finance these changes is crucial. The how (or the transition plan) is increasingly a focus-point for the investment community. Importantly, the use of offsets in achieving short- to mid-term targets is not seen as credible or useful by Climate Bonds and other organisations, and increasingly investors. Climate Bonds suggests that offsets should be reserved exclusively for those residual emissions that can't be decreased or eliminated through changing business practices, products, and energy mixes.

A third of CFOs were confident about how to reach their medium-term climate targets at the time of setting them.



Source: Climate Bonds Initiative

When asked about whether they were clear about how to reach the medium-term targets (2030) at the time of setting a third of respondents were confident. Two thirds admitted to some trepidation because of uncertainty about the future. This uncertainty could be internal such as a lack of reliable data, or external, like evolving regulations, new technologies, or changes in consumer preferences.

2. Financing the low-carbon transition

TCFD theme: Strategy

The transition plan, as with most business plans, will incur costs. Such costs need to be motivated by a business case. In some cases, this is relatively simple as many of those projects have relatively easily identifiable payback periods. Research from McKinsey demonstrated that among the required investments to reach net zero in Europe, around half had a positive investment case.[28]

Top tips

- Embed transition in the company's strategy and as part of the business plan.
- Use the thematic debt market to tap into dedicated green investors.
- Be creative in sourcing funding, from thematic finance and grants, tax credits, joint ventures, partnerships, or co-funding with partners.

The importance of scenario analysis as a tool in making a business case has already been mentioned. However, weighing the cost affordability of the transition with other competing shorter-term priorities is a balancing act that CFOs need to manage carefully. This is especially true for smaller companies with limited budgets.

Sources of capital

Given the need for capital to fund transition, CFOs need to be creative to attract funding at a competitive price and in a way that it does not compromise the company's credit quality. One obvious way is to tap into the fast-growing sustainable bond or loan markets (see discussion later). There are other creative ways to source capital to optimise the company's cost of capital. Grants, tax credits, joint ventures, partnerships, or co-funding with partners are options to be explored. For example, creating a special purpose vehicle (SPV) with a minority shareholding belonging to a third party while maintaining management control might be an option to limit impact on leverage.

Government grants and tax incentives are also important to make more decarbonisation options economical. For example, the US Inflation Reduction Act (IRA) and tax credits are incentivising oil and gas companies and private equity funds, among others, to invest in decarbonisation technologies. This is even more relevant in capital-intensive businesses.

Finding synergies for increasing the circularity of production between industries is another important opportunity. For example, before green hydrogen can be deployed in an industrial process (like steel making), it requires the production of renewable energy and the infrastructure to deliver it to the industrial plant which could involve several companies. An example of such a collaboration in the value-chain is Hydeal Espana, a consortium involved in the production and transport of green hydrogen for a series of industrial sectors.[29] Here, the creation of a business case that underpins the financing and bankability of a project requires aligning multiple companies and stakeholders, and public policies can also be mobilised.

Anonymous quote.

"One of the challenges to achieve the long-term objectives of the low-carbon transition is how we overcome short-term challenges".

The CFO perspective on the labelled debt market

The labelled debt market includes green, social, sustainability, transition, and sustainability-linked bonds (collectively GSS+). The segment has grown rapidly in recent years and by the end of the first half of 2023, Climate Bonds had recorded cumulative aligned volume of USD4.2tn. In H1 2023, Climate Bonds captured USD448bn of new aligned GSS+ volumes. Green was the dominant theme with volumes of USD278.8bn during the same period.

Climate Bonds Green Bond Pricing in the Primary Market semi-annual research series has monitored green bond pricing since 2016. Findings confirm that the green bond market is an opportunity for companies to signal their intentions, get visibility and in cases (see below) improve their cost of capital.[30] Green bonds also give companies access to a dedicated institutional investor base, and among the H1 2023 sample, Climate Bonds found that on average, 66% of green bonds were allocated to investors describing themselves as green or socially responsible.[31] This was reiterated by survey respondents who noted that green bonds gave them access to a broader range of investors and introduced new ones. Respondents also noted that the activity of issuing a thematic bond tends to strengthen internal integration, collaboration, and commitment to sustainability and presents the issuing entity with an opportunity to audit their decarbonisation needs.

Maher Al-Haffar
CFO, Cemex.

"We like KPI-linked financing as its mechanics forces companies to continuously work on their sustainability strategy".

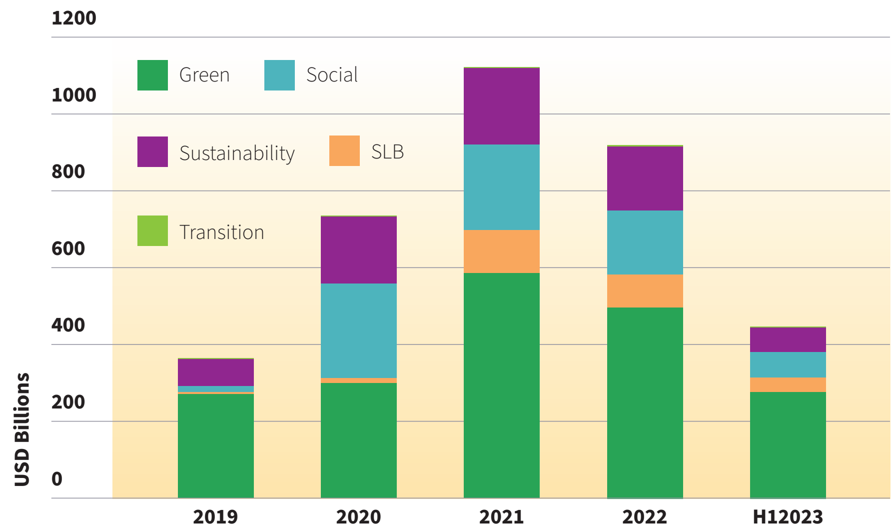
Pricing advantages of labelled bonds

Climate Bonds developed and uses the term greenium which describes a green bond that has priced inside its own secondary market yield curve in the primary market (new issue discount), and has been monitoring its presence since 2017. The existence of a greenium implies that the issuer has obtained cheaper funding for its new bond compared to prevailing rates. The percentage of issues exhibiting a greenium can vary. According to data from Climate Bonds, and based on data samples, the percentage of green bonds exhibiting a greenium can vary from 20% (H1 2019) to 61% (H2 2020) and on average, is around 30%.[32]

However, respondents reiterated the findings of Climate Bonds 2020 Green Bond Treasurer Survey, emphasising that the potential saving from greenium was not the main benefit of issuing thematic debt.[33]. Respondents mentioned that a thematic debt instrument could bring benefits beyond pricing including the potential to:

- Broaden the investor base and introduce new engagement opportunities.
- Facilitate deeper dialogue with investors.
- Enhance reputation and visibility.
- Strengthen internal integration.
- Contribute to transition, risk management, and future proofing the business.

Cumulative aligned GSS+ volume reached USD4.2tn in H1 2023



Source: Climate Bonds Initiative

Opportunities and challenges identified by respondents

	Opportunities	Challenges
Green bonds	• Well established instrument type with strong demand from dedicated investors • Well established format and frameworks, including alignment to ESG regulation • Excellent reputational benefits • Enhanced dialogue with investor base • Potential for pricing benefit (greenium)	• Requires critical mass of qualifying green projects • May require long lead time to prepare framework and structure. • Restricted Use of Proceeds • Additional costs and disclosures
Sustainability-linked bonds	• Strong investor appetite for climate investments and holistic approaches linking the issuing entity to financing conditions and forward looking benchmarks • As a general-purpose finance instrument, relatively easy to issue once a framework has been defined • Enhances dialogue with investor base • Potential for increased sector diversification (investors)	• Credibility of the climate benefits of the instrument currently being challenged while the market remains at an early stage • Requires significant internal work to align all parts of the business • Fear of missing a target might prevent a company from issuing an SLB

Bank finance

Global banks have committed to provide climate financing via the structuring of capital market instruments as well as via their own balance sheet. According to a study from Autonomous published in late 2021, the 47 leading global banks have pledged approximately USD8.3tn in green financing.[34] Some banks are indeed soliciting their clients to raise climate-aligned financing. However, respondents lamented the lack of stronger pricing incentives from the sustainable loan market.

3. Tackling scope 3 emissions

TCFD theme: Strategy and risk management

The challenges of quantifying and planning to reduce scope 3 emissions were highlighted by 25% of respondents as some of the greatest hurdles to tackling decarbonisation.

Top tips

- Assess the main sources of emissions across the supply chain and end user.
- Keep a tight and hand-in-hand collaboration with the supply chain manager.
- Assess where you have most leverage with your suppliers, for example, where several suppliers are supplying one product.
- Include net zero as a KPI with significant weight (suggestion of minimum 10-15% weighting) in the evaluation of the supplier.
- Consider working with collaborative platforms or, for example, CDP supply chains.[35]

Scope 3 emissions can be daunting to tackle as usually originate outside the direct control of a company in the supply chain. As mentioned above, it is common practice in several industries that country CFOs are either leading or heavily involved in supply chain operations, thus have a critical role to play in decarbonising scope 3 emissions.

For several respondents, decarbonising scope 3 emissions could require a fundamental rethink of a company's product lines and business plans. For example, oil and gas company scope 3 downstream emissions are a direct result of the intended purpose of the product produced. Reducing these emissions requires a pivot from the current business model towards one focused on low-carbon energy production and electrification.

Some of the main challenges highlighted by respondents from companies with a high scope 3 footprint:

- Business models are predicated on inbuilt obsolescence and a linear economy.
- Emissions are a result of the intended use of the product.
- No direct control over product use, disposal, or suppliers.
- The geographic dispersion and large number of suppliers and consumers.
- Lack of accurate emissions data from suppliers and end use/end of life.

For some sectors, including financial services or oil and gas, where scope 3 emissions contribute most of the footprint, there is a sense of urgency (investor pressure for example) for scope 3 emissions to be tackled. The consequence of not complying is those businesses might lose their licence to operate.

For other sectors, respondents, and the latest research highlights that the reduction of scope 3 emissions is the next frontier for corporates, driven by investor pressure.[36] Anecdotally, Climate Bonds has observed that some issuers coming to market with SLBs with scope 1 and 2 GHG targets had to incorporate some reference to scope 3 emissions (even if not part of the SLB target) under investor pressure.

SLB Database Methodology

Climate Bonds had recorded cumulative volume of USD252bn in sustainability-linked bonds (SLBs) at the end of H1 2023. This underscores the rapid growth in this label since the first deal was priced in 2017.

Historically, Climate Bonds has recorded, but not screened, SLB deals but in June 2023, published its SLB Database Methodology which will enable screening going forwards.[37]

The methodology organises SLBs into four categories:

1. Fully aligned: SLB targets cover all material sources of emissions and are aligned with the relevant pathway.

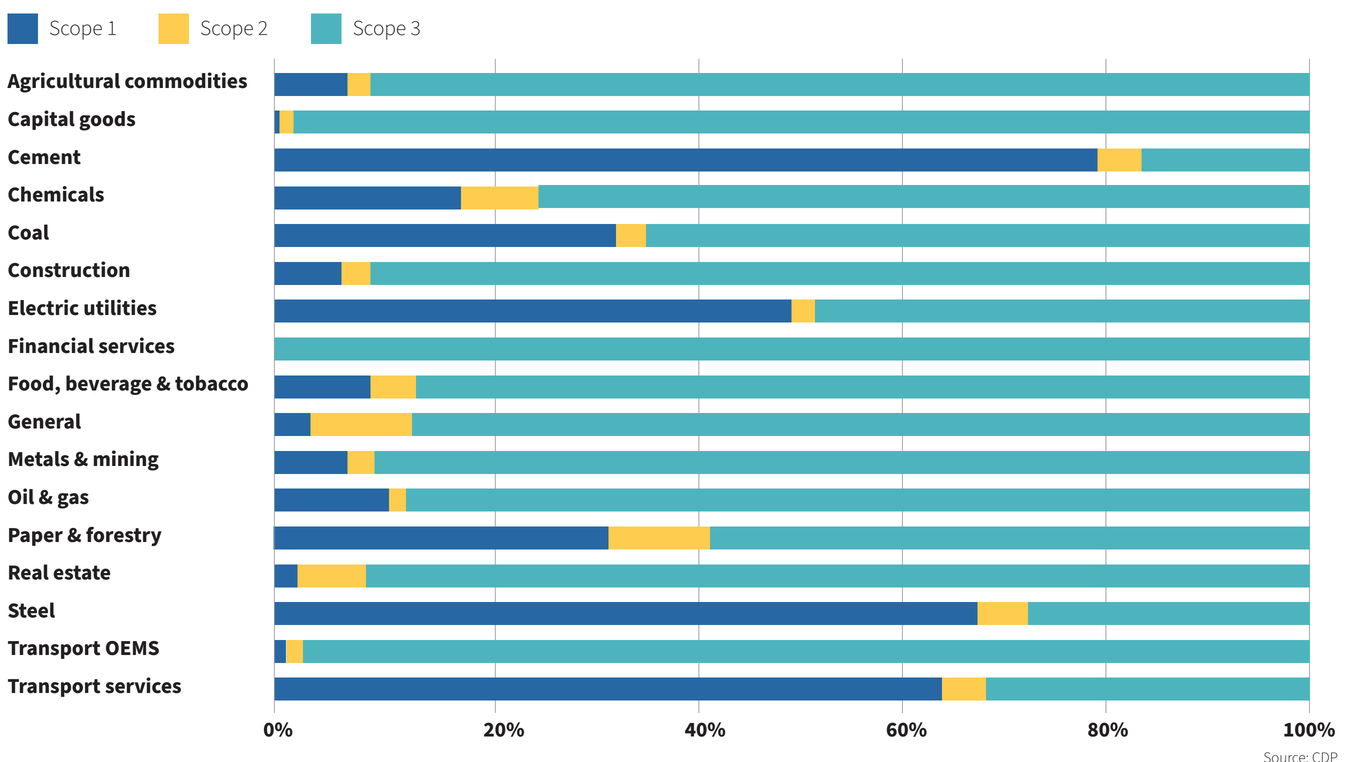
2. Strongly aligned: SLB targets cover all material sources of emissions and will be aligned with the relevant pathway by 2030.

3. Aligning: SLB targets cover all material sources of emissions, are aligned with the pathway on a % reduction basis, and the issuer has the basic tenets of a transition plan.

4. Not aligned: SLB targets fail to meet any of the above criteria, or do not meet the other requirements detailed in the SLB Database Methodology.

It is hoped that proliferation of the new Methodology will encourage investors to scrutinise SLB targets more closely, and by highlighting deals adhering to best practice, enable issuers to model the most ambitious structures.

Scopes of emissions related to different sectors, source: CDP



Source: CDP

Policy makers could incentivise companies to transition

A pricing differentiation between leading and lagging transitioning entities could trigger the right incentives and behaviours. As noted above, green UoP bonds offer several advantages, including the potential for greenium. However, if the whole entity were labelled green, pricing benefits could extend across the whole capital structure.

Firstly, it would incentivise companies to develop transition plans and invest in change. Secondly, it would help the whole financial ecosystem to differentiate between companies from a transition risk perspective. Thirdly and most importantly, it would likely accelerate the urgently needed decarbonisation of our economies.

Marius Stefan
CFO/CEO Autonom

"Before anything there needs to be a sustainability strategy"

Respondents highlighted the role of central banks in incentivising commercial banks via differentiated capital requirement for green and non-green companies and assets. Additionally, the role of rating agencies in factoring transition risks (and opportunities) more decisively in their rating assessments was often highlighted as a key driver. Rating agencies are developing assessment methodologies for net-zero plans as a separate service from ratings and these could influence institutional investors to differentiate.

The activity of issuing a thematic debt instrument can be a catalyst for the development of a company-wide sustainability strategy. It is an opportunity that leading CFOs are embracing alongside the development of credible transition plans to help investors differentiate, while making their company more sustainable both financially and otherwise.

CFO insight: Cap Gemini on supply chain emissions reductions

Cap Gemini is a multinational information technology (IT) services and consulting company, headquartered in Paris. In its 2022 annual report, the company disclosed that its scope 3 emissions represented 86% of its total.

In order to reduce its scope 3 emissions, the company published the following action plan for its supply chain.

Steps to Cap Gemini supply chain emissions engagement plan:[38]

1. June 2021: a letter was sent to all suppliers from the CEO explaining the net-zero agenda.

2. Supplier engagement programme: supplier days, roundtables, and workshops on collecting information on emissions, targets, etc.

3. July 2022: data collection from top emitting suppliers. Request commitment to:

a. Set science-based targets,

b. Report annually on emissions,

c. Share annual update of their decarbonisation plans,

d. Provide a forward-looking view of how they are reducing emissions from their products and services.

4. From July 2022, in requests for proposals, suppliers needed to commit to decarbonisation in line with a 1.5°C pathway.

5. Training deployed for buyers, educating them on Cap Gemini's sustainable procurement methodology and on defining specific action plans for individual procurement categories as well as the net-zero contract strategy.

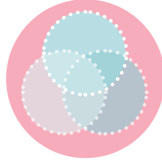
The strategy is active and includes short-term actions, including binding supplier agreements and engagement with suppliers as well as the internal teams.

Climate Bonds in its role as a third party and independent, non-commercial organisation launched a new certification scheme for entities in April 2023. This is attracting interest from both corporate issuers and investors. Corporates are keen to align to an internationally recognised standard that can certify the greenness of their transition plan. Equally, investors need guidance on what good looks like. Aligning investors and corporates through a credible climate-aligned standard should help differentiate corporate transition risk profiles.

6. Outlook: An opportunity for Chief Financial Officers

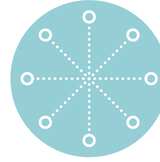
The decarbonisation journey is an extraordinary opportunity for CFOs to demonstrate leadership and steer their company into a net-zero future. While respondents highlighted challenges, they agreed that solutions were available, and that the experience of contributing to the decarbonisation planning and implementation had helped them to gain a stronger sense of strategic direction.

Identify risks and opportunities.



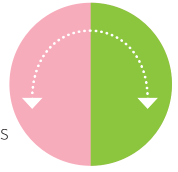
A thorough audit of risks and opportunities associated with the transition to net zero assists CFOs to capture opportunities such as government subsidies and support. Knowledge of transition risks can help CFOs to prepare appropriate mitigation strategies to future-proof revenues and the company's business model. Thorough transition planning presents an opportunity to become a green or transition leading company. This could lead to a more sustainable (financial and non-financial) business and in turn to a lower cost of capital.

The CFO is the catalyst.



The CFO can integrate sustainability across the entire business ensuring that value is created for all stakeholders (employees, supply chain and others). CFOs must be equipped with a broader, long-term integrated vision of what are the deployable strategies for all stakeholders.

Alignment of company and societal objectives.



The transition to net zero is a new frontier requiring courage and leadership. CFOs will undoubtedly encounter multiple challenges along the way and those in the role must develop a stronger tolerance for uncertainty. Those who have started the journey reported good progress, and it must be remembered that an entity that is well prepared for the transition to net zero is aligned with the sustainable development of society creating the best possible chance for it to thrive.

Annex 1: Participating companies

Climate Bonds wishes to thank the following organisations for their participation in the survey on which this report was based.

A2A
Anheuser-Busch InBev
Astrazeneca
Asyad Group
Autonom
Autostrade Per L'Italia
Beontag
Braskem
Buzzi Unicem
Cap Gemini
Cemex
Danone
EBRD
EDP
ENEL
FCC Construccion
Gerdau
HeidelbergCement
Klabin
Petronas
Schneider Electric
Smurfitkappa
Snam
Suzano
Tata Steel
Terna
Tesco
The Warehouse Group
Verizon
Workiva

Annex 2: Interview Questions

Overall

1. Who is leading (who spearheaded) the climate strategy/transition plan?

2. Do you know precisely how to get to the short to mid-term climate target?

3. Do you have clarity on how you can reach the targets, from a technological point of view (next two years/up to 2030/ beyond)?

4. Do you have clarity on how you can finance the transition (next two years/2030/beyond)?

About the financial instruments

1. Are you using sustainability-linked instruments. If yes, which ones? If no, why?

2. If yes, how did arrive at issuing those instruments? What was the process (internally/externally)?

Leadership

1. What has been your role in setting the business strategy?

2. How are the KPIs defined/agreed and what is the governance around the monitoring and measurement of those?

3. What are the difficult conversations?

Costs/benefits

1. Do you know the exact cost of the transition?

2. What are the implications of using these instruments in relation to the cost of capital?

3. How do you measure the monetary benefits of the transition plan, either from greenium or operations? => What is the bottom-line?

4. What are the internal difficult discussions and the possible trade-offs?

Scope 3

1. How do you deal with scope 3 emissions? Are you encouraging your suppliers to reduce their emissions?

Other

1. What are your top three pieces of advice for a CFO who would like to lead a transition plan and use some of these financing instruments?

2. What are the three main challenges and how to overcome them?

3. What is the relationship with investors in relation to the use of these instruments?

4. What are your interactions with policymakers?

Endnotes

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4. Sector neutral transition plan guidance can be found from Climate Bonds Initiative, GFANZ, IIGCC, ACT Initiative, Transition Plan Taskforce, and SBTi
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Authors from Climate Bonds: Fabrizio Palmucci, Rachel Hemingway, Sabine Laurent.

Reviewers: Aaron Cantrell, Nicolo Ciocci, Chandra Gopinathan, Daniel Kricheff, Jerome Lavigne, Angela Paulk, Michel Pinto, Simon C.Y. Wong

Editorial support: Stephanie Edghill, Caroline Harrison

Design: Godfrey Design, Joel Milsted

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