Title: Requests the Standing Committee on Finance to continue its work regarding ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation, in accordance with decision 10/CMA.3, paragraph 2, for consideration by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fifth session (November–December 2023) and invites Parties and stakeholders in the financial sector to make further submissions thereon
Session Name: CMA 5
Mandate: FCCC/PA/CMA/2022/L.9, para. 4 and FCCC/CP/2022/L.11, para. 11
Contact details: Thomas Tayler, thomas.tayler@avivainvestors.com

This submission is from Aviva, a UK domiciled insurance company. Aviva have been involved with the UN's sustainable development and finance activity for decades as a founding signatory of the PRI, conveners of the Corporate Sustainability Reporting Coalition for Rio+20 which shaped SDG target 12.6, co-founders of the Corporate Human Rights Benchmark – the first benchmark of corporate performance against the UN Guiding Principles on Human Rights – and the Sustainable Stock Exchange initiative. Representatives from Aviva have been attending the COP for over a decade, including through secondment into the Race to Zero team (COP26) and most recently with a divisional CEO participating in COP27's finance day and our Group CEO chairing the finance day activity at COP15.

Summary

This submission builds on the landmark agreement in the Sharm el-Sheikh Implementation Plan of the need for 'a *transformation of the financial system and its structures and processes'*. Our proposals focus on delivering this transformation to unlock investment in a just transition.

Background

At COP27 Parties agreed, for the first time, on the need for systemic reform of the financial system to support the funding of the transition to a resilient low-carbon economy:

> ***Decision CMA.4: Sharm el-Sheikh Implementation Plan***
> ***IX. Finance***
>
> *54. Reiterates Articles 2, 4 and 9 of the Paris Agreement and highlights that about USD 4 trillion per year needs to be invested in renewable energy up until 2030 to be able to reach net zero emissions by 2050, and that, furthermore, a global transformation to a low-carbon economy is expected to require investment of at least USD 4–6 trillion per year;*
>
> *55. Also highlights that* ***delivering such funding will require a transformation of the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors;***

The acknowledgement of the need for financial system transformation is very welcome. The Parties, led by the COP28 Presidency, should now build on this foundation with specific actions, responsibilities, and timescales to deliver this transformation. This will ensure each constituency identified in paragraph 55 of the Sharm el-Sheikh Implementation Plan take responsibility for their sphere of influence in driving the systemic change needed to unlock funding for the low-carbon transition.

The Parties to the UNFCCC are well placed to require these changes. The transformation of the financial system is essential to achieve Article 2.1.c of the Paris Agreement: to make financial flows consistent with a pathway towards low greenhouse-gas emissions and climate-resilient development. This requires reforms to the multilateral and collective organisations that oversee and supervise the governance of the financial system as well as the MDBs and IFIs. The Parties are shareholders in the MDBs, IFIs and are subject to, and participants in, the institutions of the international regulatory and supervisory financial architecture.

Achieving the system transformation cited in the Sharm el-Sheikh Implementation Plan will require reforms to address the mobilisation of finance to support the transition and the regulatory barriers to accelerating decarbonisation. Significant progress could be made through a recommendation to update the mandates, work programmes, incentives and reporting of the institutions of the international financial architecture, including its regulators and supervisors to make climate central. All institutions having to produce a transition plan would help steward them towards doing this. These institutions have mandates that focus on the stability of the financial system, or the part of it for which they or their members have supervisory responsibility, the protection of investors, and for reducing systemic risk. In the case of the MDBs and the IFIs, they have a mandate to reduce poverty and promote sustainable development and prosperity.

It will also involve the multilateral and collective organisations that oversee and supervise the governance of the financial system undertaking reform of their mandates, priorities, work programmes and key deliverables so that ensuring as smooth and just a transition as possible to the temperature goals of the Paris Agreement, including the necessary transformation of the financial system, is core to their purpose. Such reform needs to be coordinated and adopting a systems-thinking approach so that reforms are mutually reinforcing and effective, rather than creating opportunities for regulatory arbitrage. Reforms also need to address not only the mobilisation of finance to support the transition, but also addressing regulatory barriers to accelerating the transition's progress, such as perverse macroprudential incentives that support the carbon intensive economy, a failure to factor in and incentivise mitigation of systemic risks, a focus on transition risk at the expense of long -term physical risk, and chronic short termism in incentives and mandates. Recommendation for wider policy reforms to Parties should also be included, as the financial architecture deals with the effects of climate change not its causes, and requires broader policy reform to correct market failures and align market fundamentals through action to internalise externalities to impact cashflows and balance sheets, and therefore valuations and credit worthiness. This will include institutions such as the Financial Stability Board, International Organisation of Securities Commissions, International Association of Insurance Supervisors, Bank of International Settlements, Basel Committee for Banking Supervision, and the International Organisation of Pension Supervisors. It will also involve the work of multilateral development banks (MDBs), including the World Bank, and International Finance Institutions (IFIs) like the International Monetary Fund.

These mandates were written before it was clear that all of these aims are dependent on tackling the intersecting risks of climate change, biodiversity loss, disaster risk reduction, rising inequality, and threats to public health. It is now clear that it is not possible to tackle the priorities within these institutions' mandates without addressing the short, medium and long terms risks and impacts of climate change and ensuring that the financial system does not continue to exacerbate them but instead contributes to their mitigation.

Short term volatility in financial markets can be caused or exacerbated by climate impacts that can undermine supply chains and cause physical impacts that damage infrastructure and lead to the social and security impacts of migration and refugees. In the medium term, unaddressed transition risks for financial market participants and those that they invest in, lend to, and underwrite could lead to significant destruction of value, with impacts on jobs, savings, and economic growth. If the worst long-term physical impacts of climate change are not avoided by actions taken before the end of the decade and a science-based transition to net zero by or before 2050, then by the end of the century those impacts threaten not just the stability of the financial system and the civilisation that has grown to depend upon it, but its existence[1]. The sustainable development missions of the MDBs and IFIs cannot be achieved if the climate emergency is not addressed.

Although the need to take action to address these risks is implicit in the mandates of these institutions, in order to motivate the scale and pace of change and actions required – as set out in para 54 and 55 of the Sharm el-Sheikh Implementation Plan – such action needs to be placed at the heart of their purpose and mission.

The Global Stocktake provides a moment to recognise the progress that has been made since COP21. This progress, whilst remarkable and to be welcomed, is significantly less than the scale and pace of change required by the scientific pathways to net zero. The increased impacts that climate change is having and the reduced timescales to take action to address it mean that exponential changes are now needed.

Proposal for the political declaration

The political declaration at COP28 provides an opportunity to build upon the foundation provided by paragraphs 54 and 55 of the COP27 CMA decision.

In particular, the political declaration should include considerations to add specific actions and timelines to bring about the transformation of the financial system that Parties have agreed is needed:

1. *Reiterate* that a global transformation to a low-carbon economy is expected to require investment of at least USD 4-6 trillion per year, and that delivering such funding will require a transformation of the financial system, its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial across, including the institutions that make up the international regulatory and supervisory financial architecture. To ensure that changes are optimally effective and result in systemic, rather than solely institutional transformation, Parties emphasise the need to make system-wide changes that go beyond individual institutional change, whilst emphasising the need for each institution to consider its role and contribution to the move towards a climate-aware financial system.
2. *Recall* Article 2.1.c of the Paris Agreement, and *highlight* that to make financial flows consistent with a pathway towards low greenhouse-gas emissions and climate-resilient development, and to achieve the Paris Agreement temperature goal as well as the resolution of Parties to pursue further efforts to limit the temperature increase to no more than 1.5°C above pre-industrial levels, the transformation of the financial system must put the consistency of financial flows, and the alignment of all relevant public and private activities, fiscal and financial flows[2] with these goals at the heart of its purpose, and the mandates, work programmes, incentives and reporting of the institutions of the international financial architecture, including its regulators and supervisors. The recommendations should include each institution creating a transition plan or roadmap to align with a just transition to net zero by or before 2050, requesting any mandate changes to its key stakeholders in order to place climate action at the heart of its purpose, annual reporting on

[1] See our report Act Now: A climate emergency roadmap for the international financial architecture

[2] Recalling the agreement of the Parties to the UN Convention on Biological Diversity and in particular Target 14 of the Kunming-Montreal Framework
https://www.cbd.int/doc/c/e6d3/cd1d/daf663719a03902a9b116c34/cop-15-l-25-en.pdf

progress, and collaboratively creating and stewarding a transition plan for the financial system to achieve the transformation anticipated by the Sharm el-Sheikh Implementation Plan[3].

3. *Invite* the UNFCCC Standing Committee on Finance to conduct a gap analysis and review of the progress that has been made on Article 2.1.c of the Paris Agreement within the International Financial Architecture and the actions needed to increase consistency of private and public financial flows with the goals of the Paris Agreement on a timescale consistent with the achievement of its temperature goals. We encourage Parties, public and private sectors stakeholders, particularly those from the financial sector, and civil society organisations to actively engage in the review. We would particularly welcome recommendations for reforms, as appropriate, to the International Financial Architecture that would support the flow of private finance at the necessary scale and the achievement of the aims of Article 2.1.c of the Paris Agreement.
4. *Recognise* the collaboration between Parties and non-Party stakeholders, including on the Breakthrough Agenda, and similarly welcome leadership from the Presidency, the High-Level Champions and non-Party stakeholders to put forward proposals for transformation of the financial system to support the investment needs of the transition required to meet the goals of the Paris Agreement.
5. *Welcome* the progress made to date by initiatives led by non-Party stakeholders or that result from collaborations between Parties and non-Party stakeholders. Noting in particular the influence of the G20 Parties on the institutions within the international regulatory and supervisory financial architecture, including the Financial Stability Board. Parties welcome the role of disclosure initiatives, such as the recommendations of the Taskforce for Climate-Related Financial Disclosures and the emerging recommendations of the International Sustainability Standards Board. The role of transition plans from all stakeholders will also be crucial in enhancing implementation of pledges made to enhance mitigation and adaptation actions and investment. Disclosure is welcome but will not change market fundamentals that remain misaligned with the goals of long-term sustainable development, resilience, and mitigation of climate impacts, and Parties are encouraged to use the additional disclosures as they emerge to inform policy and fiscal actions to increase ambition and implementation in line with scientific necessity to limit warming to 1.5°C.
6. *Invite* the OECD to consider establishing an International Platform for Climate Finance (IPCF) for the purposes of monitoring and supporting international private capital flows in the furtherance of Article 2.1.c of the Paris agreement. The IPCF (or “climate finance bridge”) would coordinate the mobilisation of private capital, provide technical assistance and capacity building to developing country Parties including supporting the creation of Capital Raising Plans for NDCs and provide a forum to bring together finance from private sources with developing country Party investment needs. A study commissioned by Clima Capital Partners in 2022 on the investment needs implied by the NDCs of 126 developing countries found this totalled $13.6 trillion by 2030, and through interviews with a number of countries also identified institutional and political barriers to effecting financing planning for NDCs. These included shifting pollical circumstances, a lack of technical capacity and technical assistance, lack of cross-government coordination, access to information to cost necessary activities, and a lack of centralised climate data[4].

Aviva, February 2023

---

[3] Suggested actions set out in more detail in Act Now.

[4] More detail on the needs and the political and capacity barriers in our report Mind the Gap