CLIMATE FINANCE ADVISORS

The Climate Finance Review

Investors and Financial Institutions' Guide to Sustainability Reporting

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Building tomorrow

About Climate Finance Advisors

A boutique advisory firm in sustainable finance, impact investing, and environmental finance.

Combining academic expertise with industry experience to deliver efficient outcomes with creativity and integrity.

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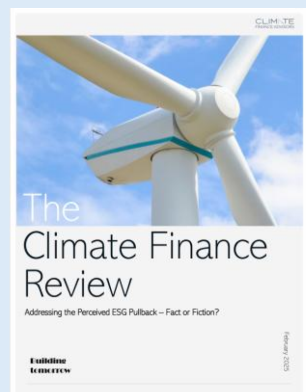
Sustainability Reporting

Introduction

Financial institutions are pivotal in mobilizing and allocating capital to fund the growth and operations of strong, healthy, and vibrant economies. By reporting on sustainability metrics, investors and financial institutions are able to allocate capital more efficiently and be deliberate in how they expose their portfolio to different risk premiums and express sustainability theses.

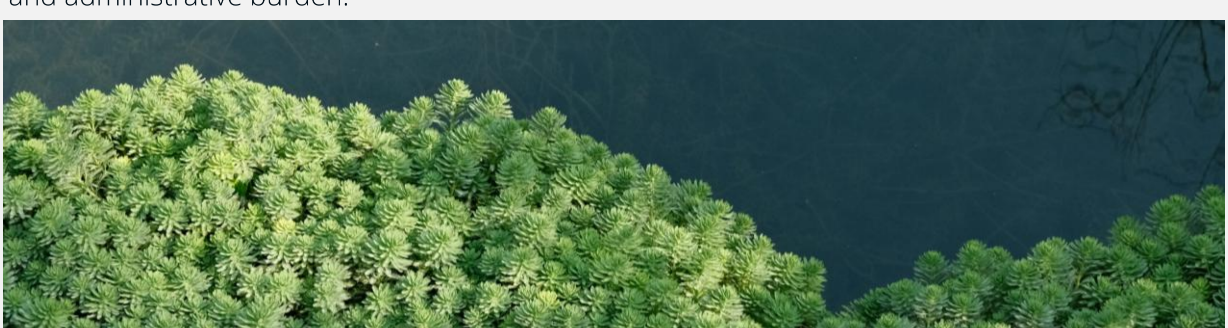
The environment for sustainability reporting has grown significantly in recent years. As scholarship on sustainable finance, materiality, and economy-wide decarbonization has blossomed, so too has the language and tools to accurately and usefully disclose on the sustainability impacts of the financial sector. In fact, 95% of the world's top 250 companies by revenue now publish carbon targets. Despite this progress, significant headwinds remain. Anti-ESG political sentiments are on the rise and, in concert with an already ever-changing regulatory environment, firms are struggling to understand where to position themselves.

For more information on positioning for sustainability headwinds, please see our website for our February 2025 edition titled: Addressing the Perceived ESG Pullback – Fact or Fiction?



This edition of *the Climate Finance Review* provides financial institutions with an overview of the current landscape around sustainability reporting including presenting new ways of thinking about reporting that effectively tie sustainability metrics to portfolio performance allowing for more integrated performance assessments over time.

The number of metrics available to report on has grown drastically leaving some organizations feeling overwhelmed and overburdened by a never-ending reporting cycle that's continuously changing. This review will try to sift through the noise and provide practical support in establishing a sustainability reporting process that is efficient, decision useful, and reduces cost and administrative burden.



Sources: KPMG

Importance of Materiality

Importance of Materiality in Reporting

Effective financial reporting for financial institutions presupposes materiality. That is, reporting on all aspects that are characteristically relevant to the performance and stakeholder decision-making of the institution. The same approach should be taken when reporting on climate change impacts and organizational sustainability considerations - materiality is **not just about disclosure, it's about strategic alignment.** Identifying and reporting on material sustainability topics ensures that financial institutions are prioritizing issues that could have a meaningful impact on their financial performance. This approach **balances internal capacity** by focusing on the most financially impactful metrics while **mitigating greenwashing** (by ensuring capex is deployed to large-scale sustainability projects) **and greenhushing** (by ensuring the most important risks and opportunities are being addressed).

By frontloading the initial work through a robust materiality assessment, the institution can ultimately save time, costs, and effort in the future – the handful of topics they report on are financially relevant and drive meaningful results. By focusing on the most material topics, the data gathering and analysis process becomes smooth, efficient, robust, and transparent. Relevant stakeholders have easy, clear access to the most important information allowing them to make decisions quickly and without ambiguity. **The institution spends less time reporting on sustainability areas that have little to no impact on the business**. Thus, it is critical that sustainability disclosures demonstrate a direct link to company financial performance by thinking about the ways that sustainability issues influence asset quality, valuation, and long-term returns.

Sample Materiality Output for a Financial Institution

Topic	Context	KPIs	Double Materiality	
			Impact on organization	Impact on sustainability
Financed Emissions	Global warming has surpassed 1.5ºC in 2024	o Financed GHG emissions	o Uncompensated systemic risk of climate change	o Ability to engage with clients on GHG reduction
Climate-related Default Risk	Physical climate risks causing supply chain disruptions	o ↑ LTV ratio as a result of asset write downs	o ↑ default risk of corporate loan book	o ↑ resilience and adaptation funding
Human Capital	Access to talent and innovation a competitive advantage	o Talent acquisition o Talent retention	o Ability to innovate o ↓ costs of talent turnover	o ↑ high quality jobs
Financial Literacy	Only 52% of adults are financially literate globally	o # of programs implemented	o Client acquisition across banking lifecycle	o ↑ financial literacy and economic prosperity

Sources: MSCI, SASB, Global Financial Literacy Excellence Center, Climate Finance Advisors

Financed Emissions

Emissions Reporting for Financial Institutions

For financial institutions, Scope 3, Category 15, or *financed emissions*, typically make up the vast majority of their total emissions footprint. According to SBTi, scope 3 emissions are on average 11 times higher than scope 1 emissions, and therefor if scope 3 makes up >40% of an organization's total footprint, a scope 3 emissions target is required (under the target setting guidance). Financed emissions are the emissions associated with the institutions lending, investing, and financing activities and is applicable to investors and banking institutions that provide financial services. It also includes investors that are not profit driven (e.g. multilateral development banks). Given that these emissions are the most notable for financial institutions, it is critical that they are accurately measured and managed especially for organizations seeking a credible net-zero strategy.

Important Characteristics of Financed Emissions Reporting

Financial institutions reporting on financed emissions should aspire to be **data-driven** and **transparent.** The diverse array of financial products can be complicated and so accounting for emissions associated with investments needs to be undertaken with care and purpose. Institutions should disclose the methods chosen to calculate financed emissions (Partnership for Carbon Accounting Financials is the standard), the data sources and quality, as well as any assumptions made. In a financial institution's targets, there should be a timeframe, baselines, asset-class coverage, and any deviations from international frameworks or guidance noted. In some years financed emissions may be off-pathway due to market volatility. In such circumstances, it is suggested for investors to communicate portfolio initiatives that are expected to bring the portfolio back on pathway.

Financed Emission Asset Classes

- Listed equity and corporate bonds
- Business loans and unlisted equity
- Project finance
- Commercial real estate
- Sovereign debt
- Motor vehicle loans
- Mortgages

Sample Portfolio Financed Emissions Calculation (PCAF, Simplified)

Company	Investment	Enterprise Value	Total GHG Emissions	Attribution Factor	Financed Emissions
Company 1	$10M	$3.4T	20.6M tCO2	0.000003	61.8 tCO2
Company 2	$10M	$1.8T	10.2M tCO2	0.000006	61.2 tCO2
Company 3	$10M	$1.3T	9.2M tCO2	0.000008	72.6 tCO2
Company 4	$10M	$2.0T	68.8M tCO2	0.000005	344 tCO2
TOTAL	$40M				539.6 tCO2

Sources: GHG Protocol, SBTi

Benefits of Reporting

Benefits of Voluntary Reporting for Financial Institutions

Reporting sustainability characteristics offers a range of benefits for financial institutions. While the impact may vary by institution type, many share common advantages, including building trust with stakeholders, enhancing engagement and collaboration, reducing risk, improving transparency, and increased client acquisition.

Benefits of Reporting for Financial Institutions

Asset Owners

- Helps asset owners align to growing pressures from constituents
- Manages drawdown risk from climate events (physical & transition)
- Allows the portfolio managers to assess sustainability impacts per dollar of return or risk (efficiency of capital)

Asset Managers

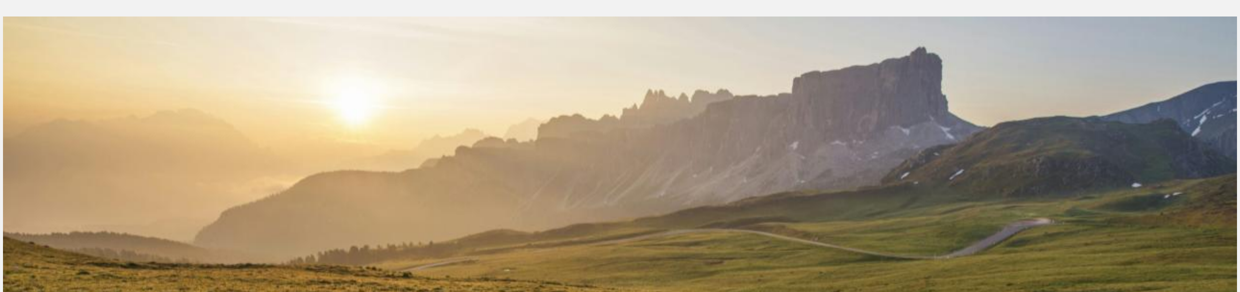
- Grow AUM by positioning for net-zero aligned owner allocation
- Manages drawdown risk from climate events (physical & transition)
- Allows it to demonstrate the impacts of its climate-aligned decision making and influence through its leadership

Banks

- Linking sustainability factors to financial statements allows banks to understand where value is derived and where it is being inefficiently managed
- Helps banks position for federal and international contracts
- Allows banks to offer new products and drive growth

Insurance

- Helps manage for insured losses which reached $8.5B in Canada in 2024, 3x the losses in 2023
- Ability to adjust insurance models to account for changing physical & transition landscape
- Allows insurance firms to offer new products and drive growth



Sources: Climate Finance Advisors, Insurance Bureau of Canada

Effective Reporting

Key Success Factors

Material to Financials: Effective sustainability reporting should make clear how sustainability issues impact the institution’s financial performance. Specifically, it should be evident how sustainability information impacts costs, revenues, margins, asset values, or other line items.

Comparable: Disclosures should be consistent across reporting periods and presented at the same time as annual financials. Together, financial and non-financial information should be comparable over time and with its peer group.

Decision-Useful: It is important that information reported on sustainability topics is decision-useful. That is, information reported should allow stakeholders to form educated opinions about the organization and its activities as part of the decision-making process and to be able to assess benefits and trade-offs. Information that is decision-useful should be presented with context in a comparable and transparent manner.

Cost-Effective: Institutions should prioritize establishing efficient data collection and reporting efforts to provide strategic value to stakeholders without creating excessive administrative burden.

Beyond Sustainability: Impact Investing & Reporting

At its core, sustainability reporting is about communicating how and to what degree an organization is *minimizing harm* to the environment, to society, and to its stakeholders. Impact on the other hand is about ***catalyzing positive change through intentional action*** under a ***well-developed theory of change***.

A strong theory of change begins with identifying a critical environmental or societal issue that the institution wishes to address. By being clear and specific on which themes the institution is targeting and how they will measure impact (beyond activities, outputs and outcomes), institutions are able to fill large funding gaps in critical areas.

Three key pillars to impact:

Intentionality	Additionality	Measurability
Impact is designed into a specific investment strategy.	Investment drives outcomes that would no otherwise occur.	Impact is tracked over time and reported with transparency.

Stay tuned for the **upcoming Climate Finance Review** which will **dive deeper into impact**, impact investing, and measurement and reporting approaches!

Sources: Climate Finance Advisors

For full & priority access, please sign up for our distribution list by emailing

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Additional Topics in Full Version

Adjusting Traditional Financial Metrics for Sustainability

In traditional finance, performance is typically measured using metrics such as the Sharpe Ratio. However, to better incentivize the integration of sustainability objectives, these traditional metrics should be adapted to formally recognize sustainability-related value creation within a portfolio. In this context, we explore how sustainability performance can be integrated into a Sustainability-adjusted Sharpe Ratio and into a Sustainability-adjusted Efficient Frontier.

Financed Emissions Part Two:

- Portfolio Emissions vs Real-World Impact: Another important distinction is that between the perceived emission reductions attained through portfolio management and the real-world decarbonization that occurs as a consequence. A portfolio manager may adjust allocation within sectors or asset classes that results in a decrease in emissions intensity or absolute emissions however, the actual emissions reductions achieved by the companies or projects being financed may not change.

- Importance of Attribution Analysis: Pursuant to the discussion on portfolio emissions vs real-world impact, it is critical to be able to attribute where changes in financed emissions are coming from.

Next Frontiers of Finance

Biodiversity Finance

Institutions are beginning to think about the **biodiversity and nature-related** impacts and dependencies of their operations and value chain as they recognize nature loss as a material risk.

Having developed the second Microcertificate in Biodiversity and Natural Capital Markets, offered through Concordia University, our goal is to help unlock new sources of capital to bridge the estimated $500 billion annual biodiversity financing gap. CF Advisors can support your institution in understanding biodiversity finance (**board, executive, desk-level education**), and **implementing strategies** to manage risks and capture opportunities.

Carbon Finance

In the achievement of a 1.5ºC scenario, financial institutions are looking for ways to fund emerging technologies (ex: direct air capture), nature-based solutions (ex: conservation and preservation), and high-quality carbon credit projects with biodiversity and social co-benefits.

Having developed the second Microcertificate in Carbon Markets and the Economics of Carbon Removal, offered through Concordia University, we are supporting organizations in understanding the vast array of carbon impacts and opportunities. CF Advisors can support your institution in understanding carbon finance (**board, executive, desk-level education**), and **implementing strategies** to manage risks and capture opportunities.

Impact Investing

Impact investing as an investment style is expected to grow rapidly and can be distinguished from sustainable investing through its **deliberate focus on addressing funding gaps and catalyzing new and additional behaviours** beyond the confines of traditional investment (deep impact).

CF Advisors is supporting institutions in defining impact approaches and criteria, developing and analyzing theories of change, creating impact manager search protocols and manager selection, assessing and reporting on granting and investment portfolio impact.

Amplifying Climate Finance

Climate Finance Advisors Speaking Engagements in 2025

Sustainable Finance Summit
Montreal, QC

Negative Emissions – Mobilizing Finance to Tackle the Climate Emergency

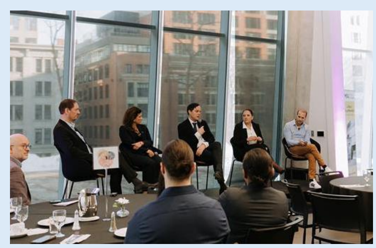
How to Tackle Climate Change
Montreal, QC

Women in Sustainability & Impact

Aga Khan Foundation x CAFIID
Ottawa, ON

Exploring the State of Climate Finance and Innovative Nature-Based Solutions

HEC Montreal
Montreal, QC



Tendances Finances 2025

Cree Nation Government
Ottawa, ON

Indigenous-Led Conservation Finance

Public & Private Capital Workshop
Sri Lanka

Mobilizing the pubic and private sector for a robust green bond market

Other Recent Speaking...

Green Digital Banking Keynote
Concordia University, 2025

Family Office Summit 2025
Toronto, ON 2025

CAASA: A Total Portfolio Approach To Climate Integration
Montreal, 2024

Quebec Climate Solutions Conference
Montreal, 2024

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