

S&P Global Sustainable1

Investor Client Council

Green Equity and Transition Finance: Building Trust and Supporting Growth

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Green Equity and Transition Finance: Building Trust and Supporting Growth

Examining the obstacles investors face in decision-making on green and transition investments and what we can do to support the development of these markets.

Background

Over the past decade, public and private climate financing has seen tremendous momentum, with a cumulative \$4.8 trillion in climate finance committed between 2011-2020 (see CPI's '[Global Landscape of Climate Finance, a Decade of Data](#)'). Much of this momentum has been driven by substantial growth in the green bond market, which provides capital for environmentally beneficial projects consistent with a long-term, near-zero carbon future. However, supporting already-green activities is not enough to effectively decarbonize the entire global economy. Unlocking capital for high-emitting entities or activities that may not have a long-term role or clear path to near-zero, but could make substantial contributions to emissions reductions, will be critical to achieving a Paris-aligned transition. Yet the transition finance market remains nascent and different approaches continue to bear risks of greenwashing, carbon lock-in, and lack of transparency and disclosure.

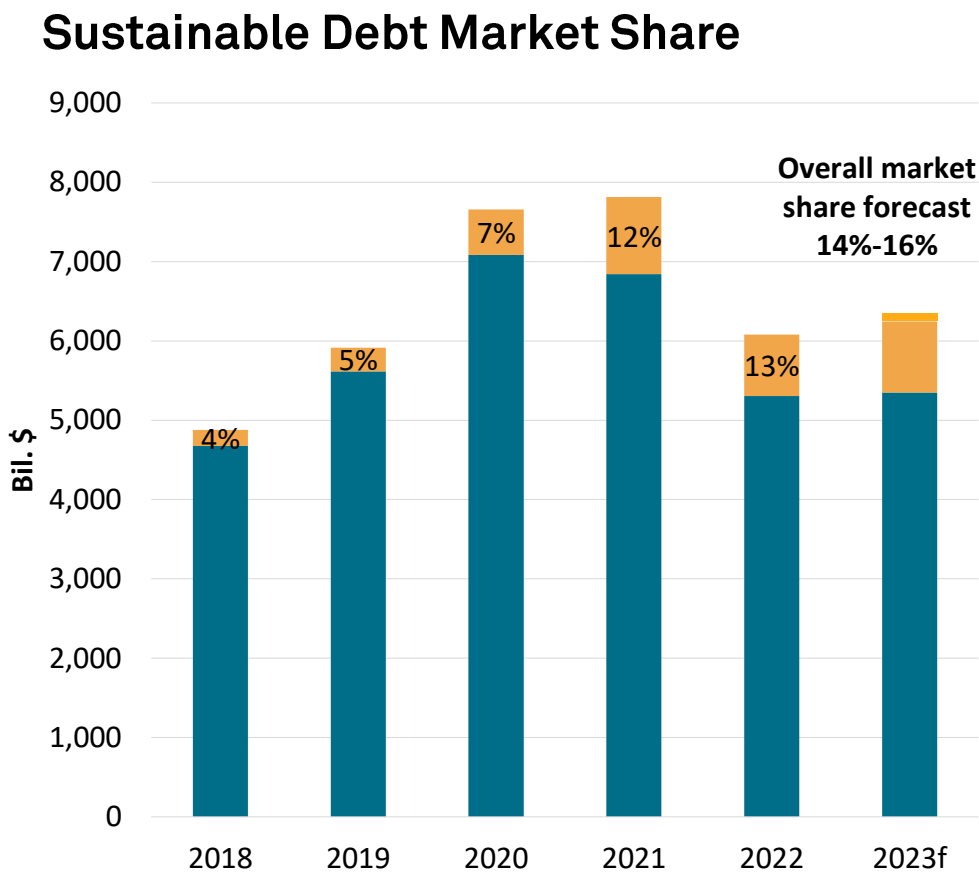
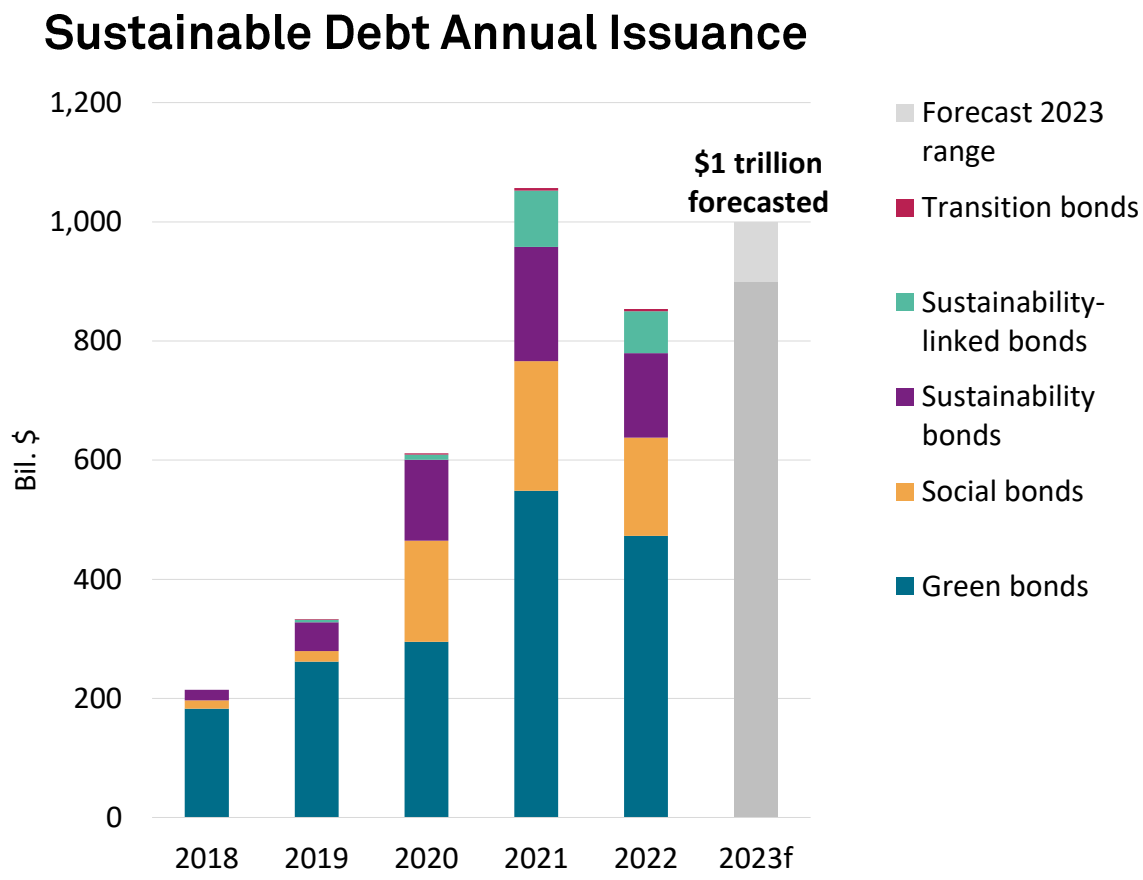
Our Approach

We recently launched the Shades of Green assessments methodology that applies for green bond assessments. It includes six shades to illustrate the full spectrum of climate transition, and we plan to apply this same approach for our entity transition assessments that are under development. On the top end of our shading scale, a Dark Green shading indicates an activity that already aligns with a near-zero carbon future and builds in climate resiliency. In contrast, Light Green indicates an activity that significantly reduces greenhouse gas emissions but that does not shift underlying infrastructure away from fossil fuels. Red indicates activities that are significantly harmful to the climate, such as new fossil fuel infrastructure.

Through our entity transition assessment, we would provide an opinion on an entity's climate transition contribution and credibility of future transition plans. We would assess the entity's current climate transition status (including applying shades to its revenue and operating expenditures), as well as evaluate the ambition, relevance, and achievability of its future transition plans (including applying shades to its capital/R&D expenditures). We would intend for this assessment to be a practical decision-making tool for investors, lenders and public authorities, as well as for exchanges that are pushing forward the green/transition equity concepts (e.g., Nasdaq, LSEG, and WFE).

Global Sustainable Debt Outlook

Issuance volume grows and represents larger share of overall bond market



Note: Excludes structured finance and sovereign issuance. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

Green Equity Listing Developments



Nasdaq Green Equity Designation is attainable for companies that have more than 50 percent of the company's turnover deriving from activities considered green. Turnover derived from fossil fuel activities must be less than 5 percent. In addition, more than 50 percent of the company's investments must be allocated to activities considered green.

Shades of Green, now a part of S&P Global, is an approved reviewer. Reviews involve engagement with the entity and annual alignment checks.



Nasdaq Green Equity Transition Designation is attainable for companies that have more than 50 percent of the company's investments allocated to activities considered green. There is no minimum threshold for turnover from activities considered green, but the company's turnover derived from fossil fuel activities must be less than 50 percent.

Shades of Green, now a part of S&P Global, is an approved reviewer. Reviews involve engagement with the entity and annual alignment checks.



London Stock Exchange's Green Economy Mark was created to help investors and issuers address the narrow view of green equities and facilitate investment. It identifies listed companies and funds that generate over 50% of their total annual revenues from products and services across all industries that contribute to the global Green Economy.



The WFE Green Equity Classification can be offered by exchanges to issuers that meet, at a minimum, the following criteria:

- More than 50% of total annual revenues must be from activities that contribute to the green economy
- Must publicly disclose the taxonomy used to ascertain that revenues are green
- Meets existing listing governance requirements
- Assessment carried out by an exchange-approved reviewer, annually
- Appropriate disclosures relating to how the issuer meets the classification criteria

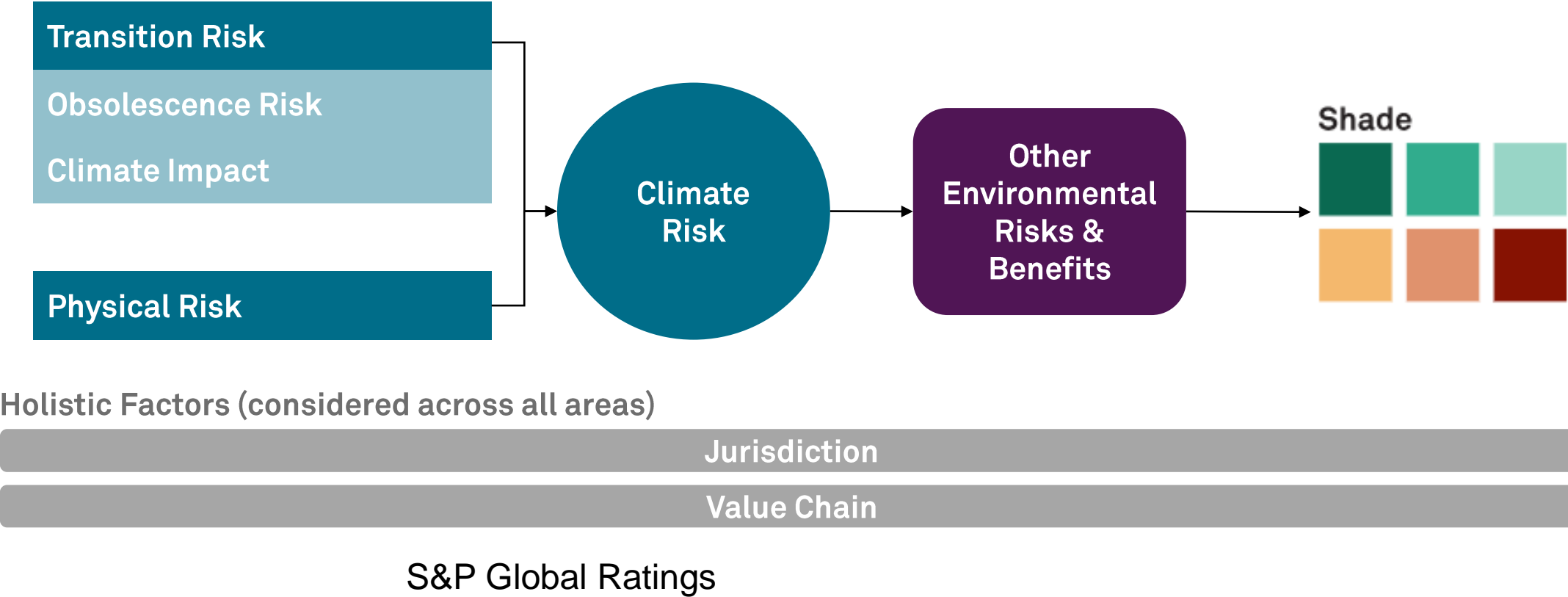
Shades of Green Methodology

Assessing how consistent is an activity or investment with a low carbon and climate resilient future

Assessments					
<div><div></div><div>Dark green</div></div>	<div><div></div><div>Medium green</div></div>	<div><div></div><div>Light green</div></div>	<div><div></div><div>Yellow</div></div>	<div><div></div><div>Orange</div></div>	<div><div></div><div>Red</div></div>
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
<div><div></div><div>Solar power plants</div></div>	<div><div></div><div>Energy efficient buildings</div></div>	<div><div></div><div>Hybrid road vehicles</div></div>	<div><div></div><div>Health care services</div></div>	<div><div></div><div>Conventional steel production</div></div>	<div><div></div><div>New oil exploration</div></div>

Shades of Green: Analytical Approach

Key Factors Reviewed When Assessing the Shades of Green For Eligible Green Projects



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