



ASCOR

PROGRESS REPORT
JUNE 2022

The ASCOR project: an overview

The ASCOR – Assessing Sovereign Climate-related Opportunities and Risks – Project has been established to create a tool giving investors a common understanding of sovereign exposure to climate risk and of how governments plan to transition to a low-carbon economy.

ASCOR will allow investors to assess governments' climate-related commitments, their policy frameworks (including carbon pricing, energy subsidies, the phase-out of combustion vehicles, deforestation and land use policies) and the actions they are taking to ensure that the benefits of the low carbon transition and of adaptation are shared amongst their citizens. Importantly, ASCOR will not be scoring countries, nor giving investment advice or direction – it is a tool to enhance investors' decision-making capabilities and to support investors working towards net zero goals.

The project is an international collaboration of investor networks, asset owners and asset managers, representing over \$5 trillion AUM and chaired by BT Pension Scheme (BTPS) and the Church of England Pensions Board.

The members of the ASCOR Steering Committee are: the UN-convened Net-Zero Asset Owner Alliance, (AOA); Ceres; the Institutional Investors Group on Climate Change, (IIGCC); the Principles for Responsible Investment, (PRI) and SURA Asset Management.

The members of the ASCOR Advisory Committee are Aktia Bank, Allspring Global Investments, Amundi, Colchester Global Investors, Franklin Templeton, MFS Investment Management and Ninety-One, alongside the members of the Steering Committee,

The research is being led by the Transition Pathway Initiative team at the Grantham Research Institute on Climate Change and the Environment, at the London School of Economics. The project is supported by Chronos Sustainability.

ASCOR is funded by BTPS, the Church of England Pensions Board, SURA Asset Management, Aktia Bank, Allspring Global Investments, Amundi, Colchester Global Investors, Franklin Templeton, MFS Investment Management and Ninety-One.

Project status

Since commencing in June 2021, the project team has made significant progress in developing the overall framework for the ASCOR tool and has started to identify the indicators that might form part of the tool. To date the project has completed its first two stages.



"ASCOR is a global project, involving developed and developing market investors, collaborating to create a tool that will allow investors to make fair judgments on sovereign risks and opportunities from a climate change perspective. The way it is being structured, focussing on publicly available information; objective indicators and policy assessment; the metrics that are being incorporated, benchmark designs, and countries' differentiated needs according to their global GHG emissions contribution, are critical to ensuring balanced analyses of countries."

SURA Asset Management

"The work that the PRI initiated with its sovereign debt advisory committee flagged the need for a tool like the ASCOR project to enable investors to move from 'why' to 'how' to incorporate climate change in their investment decisions. We are pleased to see such a tool now being developed, allowing investors to frame climate change in a more structured way."

Claudia Gollmeier (Chair, PRI Sovereign Debt Advisory Committee and Managing Director, Singapore, Colchester Global Investors)

"For institutional investors wanting to manage their climate risk and achieve net zero goals, good quality analysis on all asset classes is a must.

"While significant progress has been made, one asset class which remains a blind spot is sovereign debt which, for many institutional investors, can form a large part of their portfolios.

"The ASCOR project will, for the first time, create a way for investors to assess their sovereign debt exposure to these risks and opportunities and support engagement with international policy makers to drive net zero action.

"We are very mindful of the north/south divide – in terms of the need for capital, and in terms of responsibilities for historic and for future emissions – and we want to ensure issues of justice and fairness are fairly reflected within the ASCOR tool."

Victoria Barron (Chair, ASCOR and Head of Sustainable Investment, BTFS)

"The ASCOR tool will provide investors with a harmonised framework for assessing investments in sovereign debt in the context of net zero ambitions, probabilities and pathways, and in the context of policies that support the transition to and achievement of a net zero economy no later than 2050."

Peter Ellsworth (Senior Director, Ceres)

Stage 1:

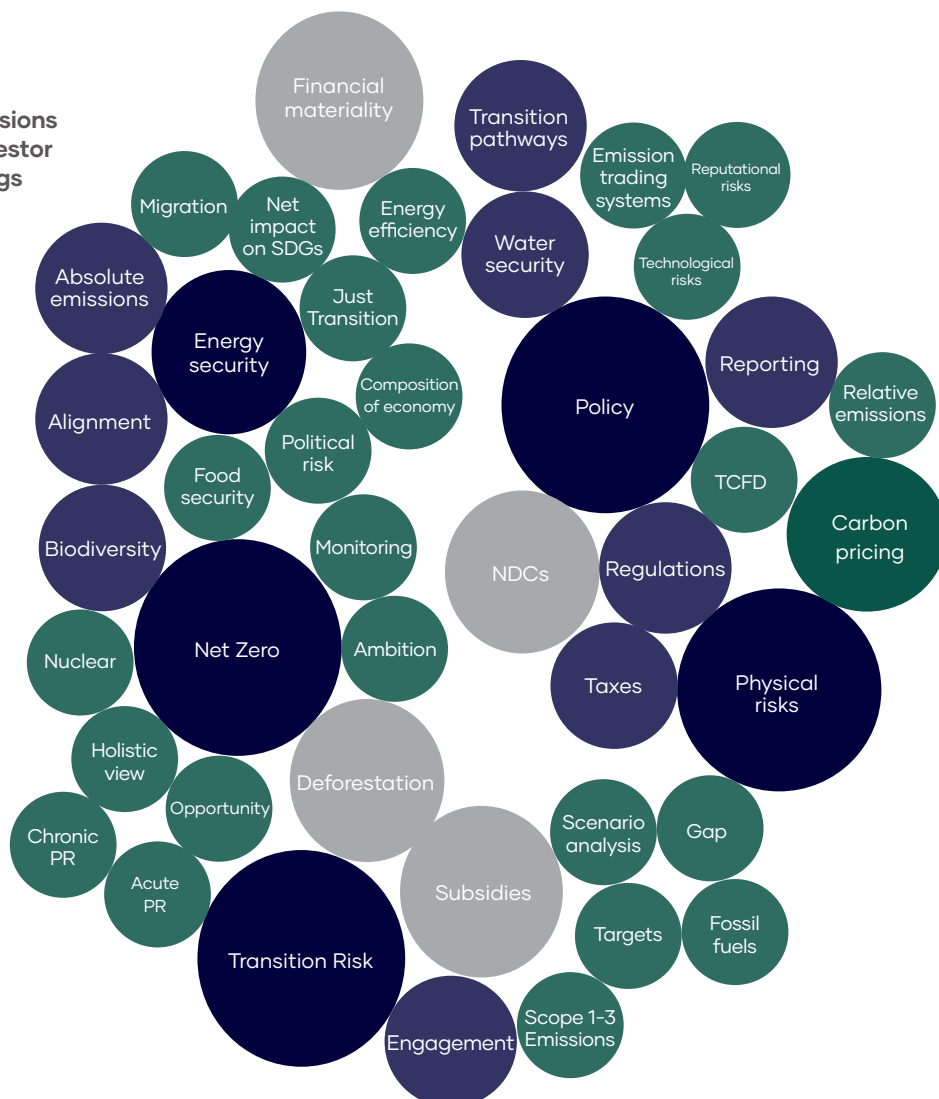
Project participant interviews

The research team conducted extensive interviews with all members of the project Steering and Advisory Committees to understand what data and information they would need to assess how well sovereigns are managing the risks and opportunities presented by climate change (see box 1).

The research showed that two considerations dominate investor thinking on sovereigns, namely:

- Policies and actions for reducing greenhouse gas emissions and for delivering net zero across the economy.
- Policies and actions for managing the physical impacts of climate change.

Box 1:
Relevant dimensions
of ASCOR – investor
interview findings



Stage 2:

Establish investor expectations for the ASCOR tool

Based on the interviews, a comprehensive review of the literature on sovereigns and sovereign assessments, and discussions with various industry stakeholders, the Steering and Advisory Committees agreed that there are seven key investor expectations for the ASCOR tool:



1. The ASCOR tool should focus on sovereign net zero commitments and should develop a 1.5°C- aligned emissions pathway, to allow countries to be compared on a consistent basis.



2. The scope of the ASCOR tool should cover the full range of government actions, including (a) economy-wide and sector-specific policies in areas such as carbon pricing, energy subsidies, transport, deforestation and land use planning, (b) policies that manage transition risk and mitigation, and (c) policies that manage transition risk, physical risk and adaptation.



3. The ASCOR tool should consider the Just Transition impact of these policies, assessing both the social benefits and costs of taking action and the distributional effects of taking action.



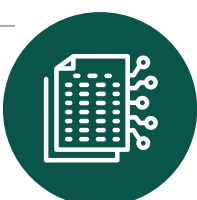
4. The ASCOR tool should assess the physical effects of climate change.



5. The ASCOR tool should account for the financial strength of sovereigns, as well as adaptive capacity and resilience.



6. The ASCOR tool should be based primarily on publicly available data.



7. The assessments conducted using the ASCOR tool should be updated on a regular basis and should be publicly available.

"One of the key features of ASCOR – and a core goal of the project – is to ensure that the outputs are relevant to investors. Ensuring that the data are regularly updated will maximise its value to investors."

Dr Rory Sullivan
(CEO, Chronos Sustainability)

"Our review of the available climate modelling suggests that the models would allow us to develop global or regional emissions intensity pathways based on cost-optimisation modelling. Essentially, these are pathways that would aim to achieve a particular temperature outcome while minimising the costs of decarbonisation. What these models are not able to do is address issues of fairness and the just transition; therefore, more work must be done in this area."

Johannes Honneth
(Researcher, Transition Pathway Initiative)





Stage 3: Identify and assess potential indicators for the ASCOR tool

We are currently identifying and testing potential indicators for the ASCOR tool. This work is being taken forward in three areas:

1.

EMISSIONS PATHWAYS ALIGNMENT:

We are focussing on how best to assess the emissions pathway alignment of sovereigns over the medium and long-term to reach global carbon budgets. From this, we are planning to develop country level emission pathways against which current emissions and future commitments can be benchmarked. This will allow investors to assess whether governments are being sufficiently ambitious and will also allow investors to assess the amount of capital required for the country align with the goal of net zero.

2.

CLIMATE MITIGATION AND ADAPTATION POLICIES:

We are assessing a selection of economy-wide and sectoral mitigation and adaptation policies to identify the most relevant indicators for assessing potential transition and physical risks. These indicators will allow investors to assess a country's progress towards the goal of net zero.

3.

FUNDING NEEDS FOR MITIGATION AND ADAPTATION:

We are identifying metrics to enable us to quantify countries' transition and physical-related funding needs, which will also help investors assess the level of funding required and to identify investment opportunities.

"In proposing policy indicators, we are taking account of factors such as whether proposed policies can be expected across different political/government systems, whether a pair of policies could be considered equivalent, what information investors need to judge government commitments and progress against them, and whether there are publicly available data sources that can be used to underpin the proposed indicators."

Antonina Scheer (Lead Researcher, Transition Pathway Initiative)

"This tool has to be practical and fair. We need to ensure that investors understand climate-related risks and opportunities and how well these are being managed by governments. From that analysis, we can then understand what role we can play in supporting the transition in key economies."

Adam Matthews (Chief Responsible Investment Officer, The Church of England Pensions Board, and Vice-Chair, ASCOR)



Next steps

We expect to complete Stage 3 by Q4 2022, at which point we will have identified an initial set of metrics and indicators that we can use in the ASCOR tool.

We will then pilot the indicators and metrics by applying them to a universe of 20 countries, covering both developing and developed countries. We expect to publish the results of this initial assessment in by Q2 2023, along with a critical assessment of the usefulness of the indicators and suggestions on whether some should be refined or replaced. We will share the results and findings publicly and engage with key stakeholders and issuers to ensure the framework's usability.

Following this pilot, the ASCOR analysis, data and indicators will be updated regularly and will be made publicly available. This commitment to regular updates and to public disclosure will enable investors to make regular assessments of sovereign exposures to climate risk and of government strategies for the transition to a low-carbon economy.

CONTACT

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THE CHURCH OF ENGLAND



Principles for Responsible Investment



Transition Pathway Initiative

BTPS



Allspring



Institutional Investors Group on Climate Change



ASSET MANAGEMENT



Ninety One



FRANKLIN TEMPLETON INVESTMENTS



Ceres



COLCHESTER GLOBAL INVESTORS



CHRONOS INTELLIGENT SUSTAINABILITY

Aktia



Amundi ASSET MANAGEMENT



MFS Investment Management



Grantham Research Institute on Climate Change and the Environment

