Rocky Mountain Institute (RMI) is establishing the Center for Climate-Aligned Finance, which will work with financial institutions to develop pragmatic and collective approaches to climate alignment.

Expectations about the financial sector’s role in shaping a sustainable planet have evolved rapidly and have now converged on the notion of **climate alignment**—the process of aligning financing and investment decisions fully with the decarbonization trajectories implied by well-below 2°C temperature targets. Climate alignment is an integrated approach that nests previous commitments within a comprehensive decision framework—including scaling up green investment, scaling back fossil investment, and disclosing progress.

RMI, an independent nonprofit with a 37-year track record of advancing market-based, business-centric solutions to climate change, pioneered the Poseidon Principles, the first global climate alignment agreement, which covers $140 billion of asset finance activity in the global shipping sector. Building on previous corporate partnership structures, such as the Business Renewables Center and the Energy Web Foundation, RMI is establishing the Center for Climate-Aligned Finance to enable a private sector–led response to clarifying and executing this promising but challenging concept.

The Center will demonstrate how to overcome barriers to climate alignment, will develop pragmatic tools and decision frameworks to define and implement practices in partnership with corporate clients, and will assist individual financial institutions on their journey through this challenging transformation.
Evolving Expectations, Difficult Realities
Expectations about the financial sector’s role in shaping a sustainable planet have evolved rapidly and are reaching a new stage. This journey began with the Equator Principles, which established minimum standards for how banks assess and manage social and environmental risks. The expectation that financial institutions should invest in sustainable solutions was reflected in a wave of sustainable finance targets. Pressure to divest from fossil fuels led to a series of commitments to stop funding new coal plants. The Equator Principles were followed by the Task Force on Climate-Related Financial Disclosures (TCFD). The task force established new norms and guidelines for disclosing climate risks, which have been widely adopted.

Yet growing alarm at the perceived threat that climate change poses to economic and societal stability, together with the Paris Climate Agreement and its rule book, has changed the landscape for the financial services industry again. National and local governments continue to impose sectoral and economy-wide policies, including the recent landmark legislation by the UK and France to mandate net-zero carbon emissions by 2050 (and a carbon neutrality goal announced by the EU). California and New York State have established net-zero targets for 2045 and 2050, respectively.

Financial regulators, meanwhile, increasingly regard climate change as a systemic financial risk. The Bank of England recently announced that it would include physical and transition risk in the next round of mandatory stress tests on banks and insurers. The US Commodity Futures Trading Commission announced the creation of a Climate-Related Market Risk Subcommittee. The co-chairs of the Network for Greening the Financial System (NGFS)—a group of central bank regulators and supervisors—recently wrote in an open letter that “if some companies and industries fail to adjust to this new world, they will fail to exist.” Clearly, regulators, investors, and the public are increasingly aware that financial firms’ commitments to increase sustainable investments and disclose climate risks constitute a necessary but insufficient response to the threat of climate change.

As a consequence, a growing number of lenders, asset owners, and asset managers are exploring and committing to the holistic concept of climate alignment—the process of aligning financing and investment decisions fully with the decarbonization trajectories implied by well-below 2°C temperature targets. Climate alignment is an integrated approach that nests previous kinds of commitments within a comprehensive decision framework—including scaling up green investment, scaling back fossil investment, and disclosing progress. A climate-aligned financial institution determines whether its current portfolio is consistent with a glide path to a net-zero carbon economy and asks whether it has committed to take the steps necessary to merge onto that pathway.

The Paris Agreement cemented the global understanding that nations would shift their emissions to net-zero over the coming decades. Therefore, many
significant commitments by financial institutions have been unveiled to align tens of trillions of dollars’ worth of lending and investments with the ambitions of the Paris Agreement. In September 2019 alone, these commitments included the Net-Zero Asset Owner Alliance (12 asset owners with $2.4 trillion assets under management) and the Collective Commitment to Climate Action (32 banks with $13 trillion in assets).

Yet, in practice, fulfilling the commitment to climate alignment is extremely difficult for mainstream financial institutions because of a few key barriers:

- **Multiple decarbonization pathways.** When considering the various decarbonization pathways, financial institutions may encounter multiple (and yet sometimes incomplete or contradictory) glide paths to net-zero emissions. Incompatible pathways, when used at scale, send conflicting price signals and can negate the real economy impacts of aligning financial sector portfolios.

- **Varying methodologies.** Even after agreeing on a glide path, a financial institution must pick the methodology it will use to measure its progress toward merging onto that pathway. Here too, varying tools and methodologies have emerged from a proliferation of initiatives. Multiple, and sometimes incongruous methodologies, can create confusion in the market and limit the ability to compare progress against peers.

- **Data adequacy.** Financial institutions need reliable, consistent, and actionable data about assets and clients to understand portfolio alignment. Data collection efforts thus far have found that data for some sectors and asset classes is often of poor quality, with incomplete coverage and suboptimal aggregation.

- **Overcoming competitive disadvantages.** Private financial institutions interested in achieving alignment nonetheless face the reality of competitive markets in which their clients have the option to switch to less progressive competitors. Thus, it is necessary to move a large enough share of the market in concert.

**FIGURE 3**
Climate Alignment Initiatives Since 2017
to prevent leakage of emissions—or business.

• **The real economy.** Even after these hurdles are overcome, ambitions to align portfolios may founder on the more fundamental reality that real economy sectors are not yet Paris Agreement–aligned. That is, not enough low-carbon investment opportunities exist yet to replace carbon-intensive alternatives at the scale required to align.

As AXA’s 2019 climate report put it: “While proactive investors can reorient some capital flows, for example via divestments and sector reallocations, they remain largely dependent on a broader macroeconomic situation which traps economies into carbon intensive pathways.”

With regulatory pressure growing and trillions in public commitments already made, **climate alignment is unlikely to be a fad.** Today, the question is how the financial sector can develop the tools and approaches to manage this process proactively. Rocky Mountain Institute (RMI) will tackle this challenge through the establishment of the Center for Climate-Aligned Finance. RMI will partner with major financial institutions to overcome barriers to climate alignment, to ensure that climate alignment is pragmatically defined and that frameworks for measuring alignment are linked to the real world, and to assist financial institutions with this challenging transformation.

**Rocky Mountain Institute**

Established in 1982, RMI is an independent nonprofit that drives market-based solutions to climate change by working collaboratively with all parties—from incumbents to disruptors. A senior leadership team drawn predominantly from the private sector oversees a staff of 250 experts. The Institute has established several transformative initiatives in partnership with business. These include the Business Renewables Center, a 276-member corporate platform that taught Fortune 500 companies how to procure renewable energy.

Regarding climate alignment, RMI led the development of the Poseidon Principles, the world’s first sectoral climate alignment agreement. Tailored for the global shipping sector, the Poseidon Principles enable banks responsible for $140 billion in ship finance to adopt carbon-intensity targets for their shipping portfolios that follow the sector’s agreed climate target of a 50% absolute emissions reduction by 2050. More broadly, RMI’s Global Climate Finance program has worked closely with major private institutions to understand climate alignment, including, most recently, in the context of the Bloomberg-led Climate Finance Leadership Initiative.

RMI’s programs in real economy sectors—electricity, buildings, mobility, heavy industry, and freight—have deep relationships with leading industry players, as well as an unparalleled understanding of sectoral decarbonization opportunities and barriers, including data solutions, technology, business models, regulation, and market dynamics.

**Center for Climate-Aligned Finance**

RMI is establishing the Center for Climate-Aligned Finance to create the agreements, tools, and practices to operationalize climate alignment and to articulate climate alignment as a global norm for private financial institutions. The Center will be situated within Rocky Mountain Institute to best leverage our unique expertise in the finance and industrial sectors and in incubating highly successful, mission-oriented collaborations with businesses. The Center’s work will be shaped by a group of financial institutions acting as Founding Partners, as well as through collaboration with corporates and experts.

**Founding Principles - The work of the Center will be guided by the following principles:**

• There is an urgent need to decarbonize the global economy to align with scientific evidence, and there is a growing momentum among policymakers, regulators, and business leaders to drive an accelerated pace of change.

• The private financial sector, working in partnership with corporate clients in the real economy, can and should play an active role in achieving accelerated decarbonization.

• Private financial institutions have an interest in proactively shaping the conversation about climate alignment, as opposed to being reactive to policy or regulation.

• The Center will be open and collaborative, and draw significantly on the expertise of financial institutions. However, it will be independent to ensure the legitimacy of its products.
The Four Pillars of the Center’s Work

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<td>Develop and launch sectoral agreements similar to the Poseidon Principles for high-emitting sectors, including utilities, oil &amp; gas, aviation, steel, and cement; develop agreements through multi-stakeholder sectoral working groups.</td>
<td>Actively shape the development of pragmatic, standardized frameworks and definitions of climate-aligned financial institutions with global applicability.</td>
<td>Informed by the development of sectoral initiatives and global frameworks, assist individual financial institutions in understanding the implications of climate alignment and navigating toward it.</td>
<td>Shape public discourse via commercial conferences, policy dialogues, and media channels to clarify and legitimize the concept of climate alignment in the financial sector.</td>
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<td>Indicative year 1 activities</td>
<td>Kick off two sectoral climate alignment initiatives for carbon-intensive sectors.</td>
<td>Undertake research on the potential feasibility of TCFD-like general frameworks for climate alignment, in collaboration with leading experts; establish high-level dialogues with regulatory bodies such as NGFS.</td>
<td>Complete three in-depth reviews of individual institutions’ risks and opportunities related to climate alignment (with priority given to Founding Partners) and generalize the lessons learned.</td>
<td>Participate in major financial sector conferences and public–private dialogues (e.g., Davos); publish public white papers and op-eds promoting climate alignment while highlighting its challenges.</td>
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<td>What success looks like: three-year objectives</td>
<td>Four to five sectoral initiatives covering a significant proportion of global emissions now have successful climate alignment agreements, with other agreements being developed.</td>
<td>Following a request from leading central bankers, a TCFD-style process is well underway for standardizing climate alignment.</td>
<td>The Center has engaged with a wide range of financial institutions—diverse in type, size, ambition, and geography—and is a leading provider of information and services that help financial institutions become climate aligned.</td>
<td>The concept of climate alignment is understood globally and is an accepted norm in the financial sector.</td>
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**Governance**

The Center will be governed based on the following points:

- As a general principle, the Center will operate as a distinct but integral part of Rocky Mountain Institute.
- The Center’s staff will be employed by Rocky Mountain Institute and will report to RMI’s existing management structure. RMI will provide all the administrative support functions as it does for all of all its programs.
- Financial contributions to support the work of the Center—whether structured as grants, contracts, contracts, or membership fees—will be made to RMI and administered by RMI, consistent with its normal practices for funding dedicated initiatives (i.e., restricted funding).
- The Center’s work will be informed by an Advisory Council whose members include Founding Partners and others to be determined.
- The Center may establish sectoral working groups chaired by senior representatives from the private financial sector and including external experts as appropriate.

**Partnership Approach**

RMI specializes in forming coalitions to address the most difficult multi-stakeholder challenges in the low-carbon transition. Recognizing that several organizations have developed expertise and tools related to climate alignment, the Center will seek to build an inclusive ecosystem of experts around its core mission of partnering with private financial institutions.