

Policy Advocacy

Introduction

This section addresses barriers to, and captures opportunities for, net zero alignment created by the wider policy and regulatory environment, enabling key sectors and the wider economy to transition.

Policy engagement is becoming increasingly recognised as a critical component of net zero strategies and transition plans.¹⁰² Engaging with regulators and policymakers to advocate for the development and implementation of coherent and well-designed policies has the potential to address key barriers to decarbonisation across entire economies and create the incentives necessary to scale investment in climate solutions. Relative to NZIF's alignment categories, investments may struggle to progress from 'aligning' to 'aligned' to a net zero pathway without plausible net zero pathways and the required business case/incentives created by enabling policy environments.

Core action points

NZIF recommends the following actions for investors using the framework and considers them core:

- ✓ Align direct and indirect policy advocacy efforts towards what is relevant for achieving global net zero emissions by 2050 or sooner.
- ✓ Participate in policy advocacy (directly or collectively) to international, national and sub-national policymakers to promote the implementation of climate and wider economic policies and regulations that support net zero objectives.
- ✓ Disclose internal climate policy positions and that of industry associations, participation in any advocacy or lobbying activities and submissions, and an assessment of the alignment of industry associations in alignment with the Global Standard on Responsible Climate Lobbying.
- ✓ Create procedures for robust internal oversight of policy advocacy efforts, including monitoring, review, and transparency through disclosure.
- ✓ Engage with investment managers or clients on the need for net zero aligned policy advocacy to achieve net zero objectives.¹⁰³





Advanced action points

NZIF recommends the following advanced actions. These may initially be difficult but would likely prove beneficial:

- ✓ Disclose within a transition plan the interdependencies between net zero targets and the wider policy environment.
- ✓ Engage with portfolio companies on their lobbying practices and industry associations, promoting the need for alignment with the Paris Agreement.¹⁰⁴

Below is a non-exhaustive list of examples of important policy topics that investors may wish to consider when encouraging enhanced policy action to facilitate their net zero efforts.¹⁰⁵

Disclosure and Transparency

- Mandatory disclosure of standardised corporate transition plans, above certain thresholds, to improve asset alignment assessment, along the basis of double materiality.¹⁰⁶
- Improved and standardised national disclosures required for assessing the net zero alignment of national governments.
- Work towards enhancing interoperability and coherency of regulatory disclosure frameworks to support investors with global portfolios.

Government Policies and Coordination

- Collaboration and coordination between national and subnational governments to facilitate achievement of net zero related goals.
- Aligning government subsidies, taxes, and other incentives so that they facilitate and do not inhibit achievement of net zero goals.
- Improving disclosure of information relevant to assessing alignment and investment in climate solutions.
- Implementation of sectoral decarbonisation strategies, particularly in high emitting sectors, with clear emissions reduction targets and underpinned by clear policies that support the deployment of critical net zero technologies.
- Development of an economy-wide transition plan and supportive financing plans that is aligned with the Paris Agreement.
- Development of fossil-fuel¹⁰⁷, renewable energy¹⁰⁸, and deforestation¹⁰⁹ policies that are consistent with fair share contributions towards global commitments.

Financial Regulation and Oversight

- Central banks and financial supervisors to incorporate transition plans as part of their prudential oversight of financial institutions.
- Advocating for transition finance to be embedded within regulatory architecture.
- Greater scrutiny of traditional benchmarks and the role of index providers.

Global Agreements and Standards

- Global agreement to phase out unabated fossil fuels at a trajectory which aligns with the goals of the Paris Agreement.

Investment Facilitation and Support

- Advocate for taxonomies which facilitate climate solutions investment in accordance with fair share principles and the latest climate science, adopt clear and usable criteria, account for transition/enabling activities, and are interoperable with existing taxonomies.
- Suitable vehicles for low-carbon investment in emerging and frontier markets.
- Improving shareholder rights to affect corporate strategy and management.
- Adequate support for protecting communities adversely impacted by transition activities.
- Improving availability of granular sector, regional, and national net zero pathways, which incorporate fair share principles.

