

### IIGCC Launches Bondholder Stewardship Working Group

#### Position Statement: Redefining Climate and Net Zero Stewardship for Bondholders

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##### Context

Companies need capital to transition their business models, assets and activities to align with net zero. The IEA estimates the capital required between now and 2050 for companies to stay within 1.5-degree scenarios ranges from \$109 - \$275 trillion.

The concept of stewardship and engagement underpins investor climate action, including commitments to support the goal of achieving net zero GHG emissions by 2050 or sooner. For example, signatories to the [Net Zero Asset Management initiative](#) (with 291 signatories, and approximately \$66trillion in AUM) have committed to implement stewardship and engagement strategies consistent with the ambition for all assets to achieve net zero emissions in line with the decarbonisation goals of their clients and beneficiaries. Meanwhile, the [Net Zero Investment Framework](#) calls on investors to prioritise engagement and stewardship as the primary mechanism to drive alignment with 1.5-degree scenarios.

Bondholders typically fund 50-80% of a company's capital structure. With \$253 trillion in outstanding global long-term debt as of 2021 compared to \$94 trillion in listed equities, bondholders are crucial to providing transition capital. While being exposed to the high costs of physical and transition risks, bondholders also have significant potential to ensure that companies develop and action robust climate transition plans to meet net zero. This potential is not limited to the listed space but extends to private companies, which account for 9% of historic emissions but significantly trail in climate disclosures, with less than 1% of private companies disclosing their environmental impact through CDP.

Despite this potential, bondholder stewardship and engagement practices are less established relative to equities and are hampered by the absence of bondholder-specific guidance, governance structures, disclosure, accountability mechanisms and escalation measures. The absence of regular voting rights has been mistakenly understood to mean the absence of bondholder influence.

However, the essential nature of debt to a company's overall enterprise value means that bondholders retain significant opportunities for influence throughout the cycle of debt (re)issuances. Bondholder stewardship offers a vital opportunity for investors to use this influence to engage with companies and steer the transition to net zero.

There is therefore a clear need for an industry-wide collaborative guide for bond issuers and investors on how that influence can be used to meet investor climate objectives, focusing on best practices for climate-related disclosure, stewardship and engagement, and new financing structures.

##### Launching a Bondholder Stewardship Working Group

IIGCC is launching a Bondholder Stewardship Working Group to support bondholders shape the transition to net zero. Chaired by Chandra Gopinathan, Senior Investment Manager, Sustainable Ownership at Railpen, the IIGCC Bondholder Stewardship Working Group will serve to address the gap

for a bondholder collaborative to improve climate-related governance, accountability, effective stewardship and financing frameworks for bond investors. Focused on corporate bonds initially, mainly investment grade and high yield in both developed and emerging markets and including private companies, the Working Group will provide guidance on best practices for climate-related disclosure, stewardship and engagement and new financing structures.

### **Key objectives**

The Working Group shares IIGCC's core objective to deliver real economy progress towards a net zero and resilient future by 2030. This is supported through two workstreams and four key objectives:

**Workstream One: Bondholder Engagement;** with its key objectives being:

- **Stewardship** – Improve bondholder stewardship and engagement practices to encourage high emitting issuers to develop credible transition plans, accelerate transition activities, provide appropriate climate-related disclosures, and adequately respond to climate change risks.
- **Pilot Engagement** – Pilot and explore new bondholder engagement approaches in initiatives like CA100+ and others.

**Workstream Two: Financing Structures and Frameworks for New Issuances;** with its key objectives being:

- **Scale Green Financing** – Develop and advocate best practice standards for labelled bonds for issuers and investors to support credible transition initiatives, scale green and transition activities finance and meet net zero goals.
- **Enhance the Debt Financing Ecosystem** – Identify ways the debt financing ecosystem can be improved to align and steer the net zero transition in line with client goals by working collaboratively with corporate issuers, banks, private equity and regulators.

### Bondholder Engagement

The Working Group will develop Engagement Guidance specifically for bond investors. This will serve as supplementary guidance to the [Net Zero Stewardship Toolkit](#), published in April 2022. The Toolkit provides investors with a foundational process to prioritise, analyse, escalate and enhance their engagement and stewardship practices. The Bondholder Engagement guidance will build on the principles set out for listed equities, along with other industry guidance, to provide a life cycle-based net zero engagement approach to corporate debt.

The guidance will identify best practice engagement standards and techniques over the life of the bond and beyond. It will explore the differences between engagement with publicly listed companies, private companies and sovereign-owned companies, as well as between investment grade and high yield, and how to effectively conduct bondholder stewardship in emerging markets. It will consider opportunities for greater collective engagement on corporate debt and present a common investor voice on expectations for issuers and across the debt financing ecosystem, from banks to second party opinion providers to ratings agencies.

The concepts and approaches identified by the Working Group may inform engagements with Climate Action 100+ focus companies and IIGCC's Net Zero Engagement Initiative – the recommendations will also be disclosed to regulators and policymakers.

Financing Structures and Frameworks for New Issuances

The working group will also contribute to developing norms for labelled sustainable bonds and green issuances. While excellent work is already underway on standardising and improving green and sustainability-linked bonds, the state of the market suggests that further work is needed. We are strongly supportive of the ongoing work by Climate Bonds Initiative, ICMA and others in this space and will seek to provide complementary guidance on financing structures and frameworks to encourage more robust products and best practice templates for new issuance, where appropriate. The working group will consider investor expectations across the debt capital market, engaging not just with issuers but with the banks, in parallel to the IIGCC Banks Engagement Initiative, and other key players in the bond market.

Overall, working with investors, IIGCC aims to drive further innovation in this field. By leveraging our existing work on standards for transition plans, engagement with banks as a key player in the ecosystem and expertise setting net zero aligned targets, we will enhance the debt financing ecosystem in a manner that is aligned with managing the financial risks of climate change, meeting investors' net zero commitments and reducing real world emissions.

Comprising of some of the largest global bond investors, the Bondholder Stewardship Working Group will contribute to a common investor voice on bondholder climate stewardship to harness the potential of the debt market to support and steer the transition to net zero.

*Core Working Group Member*

Insight Investment	Royal London Asset Management
Allianz Global Investors	Ninety One
Eurizon Capital	Jupiter Asset Management
Neuberger Berman	Railpen
Phoenix Group	

*Other investors will also support the core working group and be consulted as its work progresses.*

All meetings, communications and initiatives undertaken under the auspices of IIGCC are designed solely to achieve climate change and sustainability objectives and conducted in accordance with the relevant laws, including competition laws and acting in concert rules. IIGCC's services to members do not include financial or investment advice.