A Financial System for Net Zero

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Gillian, thank you.

A few years ago, the financial system held a mirror to the climate crisis.

Despite the breakthroughs at COP21 in Paris, few countries had net zero commitments or adequate policies to get on track, business investment in decarbonisation was limited, and business net zero transition plans were the exception. Most in the financial sector considered climate change to be a corporate social responsibility issue, not a strategic imperative. Too many thought that solving climate change was someone else's problem.

As a consequence, when leading financial institutions—such as AXA, Japan's GPIF, Allianz and the Bank of England—calculated the implied temperature warming of the companies in their portfolios—portfolios that were representative of the capital markets as a whole—they revealed that the world was on a course for more than three degrees warming.

That's why our goal for COP26 has been to build a financial system in which every decision takes climate change into account. A year ago, we set out 24 major deliverables for COP26 to transform the information, tools, and markets at the heart of finance.[1] Today, we're delivering them all.

This means:

- mandatory climate disclosure based on the TCFD so that financial institutions have the climate information they need to manage risks and seize opportunities.[2]
- Wide-spread climate stress testing that brings the future to the present, revealing the tragedy of the mounting physical risks if we remain on our current path, as well as the scale of stranded assets if the world succeeds in its mission to control the climate.[3]

[1] See: https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf
[2] See https://www.ifrs.org/news-and-events/news/
[3] See https://www.ngfs.net/en/liste-chronologique/ngfs-publications

- defining best-practice, science-based transition plans for companies and financial institutions.[4]

- robust assessments of the alignment with net zero of financial portfolios.[5]

- developing frameworks to wind down stranded assets transparently and responsibly.[6]

These seemingly arcane—but essential—changes to the plumbing of finance are moving climate change from the fringes to the forefront, and they will transform the financial system in the process. The world's largest banks, asset managers, insurers, and pension funds increasingly see climate as both a fundamental risk to be managed, and as a core driver of value to be seized. The transition to net zero is becoming a strategic imperative for companies and financial institutions.

Only this mainstream focus can finance the estimated $100 trillion plus of investment needed over the next three decades for a clean energy future.[7] That's an extra two percentage points of global GDP in investment. Year in and year out for 30 years. In every corner of the world.

When the UK assumed the COP Presidency in partnership with Italy two years ago, $5 trillion of private financial assets were committed to net zero. Today, as part of the Glasgow Financial Alliance for Net Zero, over 450 major financial institutions from 45 countries are committing to manage their balance sheets totalling over $130 trillion in line with net zero.[8]

Make no mistake: the money is now there if the world truly wants to address climate change.

GFANZ covers the entire waterfront of finance: banks, insurers, pension funds, asset managers, export credit agencies, stock exchanges, credit rating agencies, index providers and audit firms. The best in finance, committed to making the transition to net zero a reality.

GFANZ is the gold standard for net zero[9]. All members followed rigorous internal governance processes to make commitments that will reshape their business models and fund the sustainable transformation of our economies. And GFANZ members

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[4] See GFANZ progress report: https://www.gfanzero.com/progress-report/
[5] See TCFD Guidance on Metrics, Targets and Transition plans: https://www.fsb-tcfd.org/publications/
[6] See GFANZ progress report: https://www.gfanzero.com/progress-report/
[7] Based on range of estimates for 1.5C aligned net zero scenarios from IEA, NGFS, IRENA and BloombergNEF. And see: https://www.gfanzero.com/netzerofinancing/
[8] https://www.gfanzero.com/press/
[9] Race to Zero and GFANZ: Ensuring the rigour and impact of financial sector net zero commitments and action https://racetozero.unfccc.int/race-to-zero-and-gfanz-ensuring-the-rigour-and-impact-of-financial-sector-net-zero-commitments-and-action/

haven't just committed to net zero financed emissions by 2050 at the latest. They also target their fair share of the 50% greenhouse gas emissions reductions by 2030 that are needed to keep the world on track for 1.5 degrees. And they're using the most rigorous and stringent science-based scenarios to set detailed five-year emissions reduction plans. Every GFANZ member will report their progress against all their targets annually.

GFANZ is underpinned by the rigour of the UNFCCC's Race to Zero. An independent Expert Peer Review Group of academics, scientists, and NGOs ensure that all criteria are met, and governance is followed. A GFANZ Advisory Panel of 20 independent experts from around the world, and the 7 NGOs that convene the sub-sector alliances of GFANZ, guides and scrutinises its work. As you will hear shortly, GFANZ will work closely with the official sector, including the FSB, to build a global financial system focused on achieving net zero.[10]

The enormous resources and relentless focus of GFANZ can unlock the $1 trillion of additional annual investment needed for the net zero transition in EMDEs by the middle of this decade.[11]

Doing so will require a radical new approach to mobilise private finance at unprecedented scale. Specifically, we need new country platforms that combine ambitious country climate plans, GFANZ financing commitments, catalytic initiatives such as CFLI and Fast Infra, as well as the expertise of multilateral development banks. These country platforms should deploy new structures of blended finance at scale and with high multipliers, connecting private finance with Paris-aligned projects, and managing the wind-down of stranded assets.[12]

Finance is no longer a mirror that reflects a world that's not doing nearly enough. It's become a window through which ambitious climate action can deliver the sustainable future that people all over the world are demanding. It will help end the tragedy of the horizon.

With the best in finance stepping up, there are new opportunities for companies and countries to raise their ambitions. To tackle deforestation, to end the use of coal and phase out fossil fuels, and to dramatically reduce methane.

Finance to fuel the Race to Zero's breakthrough ambitions, from affordable green power to zero emission steel and low carbon hydrogen.

[10] Race to Zero and GFANZ: Ensuring the rigour and impact of financial sector net zero commitments and action https://assets.bbhub.io/company/sites/63/2021/10/Ensuring-rigour-and-impact-of-FS-NZ.pdf
[11] GFANZ Mobilisatoin Statement of Support https://assets.bbhub.io/company/sites/63/2021/11/Mobilisation-Statement-of-Support.pdf
[12]Country Platforms Action Plan https://assets.bbhub.io/company/sites/63/2021/11/Country-Platforms-Action-Plan.pdf

And finance can fund investments driven by predictable and credible government policies. Policies such as the UK's phaseout of new internal combustion engine vehicles in 2030, the EU's Fit for 55 Package and Canada's legislated carbon price path deliver the policy certainty that investors need: through binding targets; sector-specific policies and a fair mix of both taxes and subsidies.

Through the new window of finance, such initiatives give finance the confidence to invest, pulling forward the adjustment, smoothing the transition to net zero, driving growth and jobs upwards, and forcing emissions downwards.

With GFANZ we have '(All the) finance for net zero'.