I’d like to thank the UK COP Presidency and the City of London for convening this Net-Zero Delivery Summit and to extend my deepest appreciation to Secretary Kerry for his tireless climate leadership.

This is an important event at a critical time. We stand half way between the UK COP26 and Egypt’s COP27. And we’re already a quarter of the way through what must be the “decade of delivery” for the net zero transition.

The scale of the challenge is well understood. Our planet’s average temperature is already 1.1 degrees Celsius warmer than pre-industrial levels, and the last seven years have been the warmest on record.¹ While the Glasgow commitments of governments could limit warming to 1.8 degrees Celsius by 2100, their policies are still only consistent with warming of 2.7 degrees.² We must not just ‘mind this gap’ but urgently close it, for as the IPCC has set out, the global carbon budget is a binding constraint that will be exhausted within a decade on the current trajectory.³

Transitioning to net zero as rapidly as necessary and as smoothly as possible requires wholesale transformations of our economies and financial systems, against the backdrop of a worsening global economy.

Recent events have put into sharp relief the many failings of the global energy system. Energy is a weapon in a horrific, unjust war. Households in developed economies are facing crippling energy bills. Across the developing world, the grind of energy poverty is worsening. All the while, the climate crisis grows, building future costs that will dwarf current hardships.

In short, our current energy system is unreliable, unaffordable, inaccessible, and unsustainable. We need to move to a new one that supports both climate stability and a thriving, inclusive economy.

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¹ World Meteorological Organisation
² Climate Action Tracker
³ The IPCC’s Sixth Assessment report
To get there, we need we need nothing short of a revolution in energy, business and finance.

At the 11th hour, it has begun. Over the past two years, the proportion of global emissions covered by country net-zero targets has risen from less than one-third two years ago to almost 90% (Exhibit 1). Under the Glasgow Climate Pact⁴, countries agreed to close the gap between ambition and action. And for the first time, nations agreed to stop deforestation, and phase down unabated coal power and inefficient subsidies for fossil fuels. 1.5 is still alive. But only just.

**Exhibit 1: Net-zero transition is accelerating**

<table>
<thead>
<tr>
<th>Countries with net-zero commitments</th>
<th>Emissions covered by country net-zero commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>21 Jan 2020 7x</td>
<td>90% Jan 2020 3x</td>
</tr>
<tr>
<td>140 Nov 2021</td>
<td>30% Nov 2021</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Companies with net-zero commitments</th>
<th>Financial commitments to net zero</th>
</tr>
</thead>
<tbody>
<tr>
<td>992 Jan 2020 5x</td>
<td>26x Jan 2020 $130T</td>
</tr>
<tr>
<td>5,230 Nov 2021</td>
<td>$5T Nov 2021</td>
</tr>
</tbody>
</table>

*Sources: Climate Action Tracker. United Nations Climate Change, Race to Zero, United Nations Climate Change Race to Zero, Glasgow Financial Alliance for Net Zero (GFANZ).*

**Energy Revolution**

For the world to achieve its objectives, we need a sustainable revolution on the scale of the Industrial revolution and at the pace of the digital transformation.

In the century from the mid-1700s, the UK economy was redrawn. New technologies, mass production and urbanisation replaced cottage industry and small scale agriculture. Cross-border flows of goods and

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⁴ [https://unfccc.int/documents/310475](https://unfccc.int/documents/310475)
capital exploded. This was all made possible by new energy sources that ‘powered past’ people and horses.

Today, the energy that keeps our lights on, heats our homes, transports our goods, and fuels their production accounts for 75% of global carbon emissions. These emissions must fall rapidly to have any chance of keeping global average temperatures below 1.5 degrees. This will be difficult. We can’t simply decree the most complex energy transition in history by fiat.

We must transition both supply and demand. How we do matters tremendously for prices faced by consumers, stagflationary pressures, and social costs. Recent IMF simulations indicate that an exclusive focus on either the supply-side or demand-side policies could mean the difference of $170 per barrel in the price of oil.\(^5\) Solely restricting hydrocarbon supply will boost rents in the energy sector, while constraining governments and hobbling households. In contrast, focusing on demand and increasing clean energy supply will boost household incomes, employment, and growth. Adjustment would then be concentrated in declining industries, and can be smoothed by governments that are in more robust financial health.

**Exhibit 2: Oil prices rise when Net Zero transition driven by supply policies and decline when driven by demand policy**

![Chart showing historical real crude oil price and Net Zero emissions scenario](source)

*Source: IMF World Economic Outlook, April 2022*

\(^5\) International Monetary Fund, World Economic Outlook, April 2022, pg35
Addressing energy supply in the current conjuncture appears—at first glance—particularly challenging. European energy markets have ruptured, with negative spillovers cascading around the globe. The resulting scramble for alternatives is boosting emissions in the near term and leading some to argue for ‘temporarily’ setting aside our climate goals. But the climate doesn’t care about why emissions happen, only how much. The more we emit now, the more radical the action will be needed later. We need to speed up not slow down.

More fundamentally, there is no energy security without sustainability. The folly of our lean, fossil fuel-based global energy system has once again been laid bare. In contrast, once built, clean energy systems will be more affordable, efficient, resilient and reliable. No one owns the sun and wind. Hydrogen is everywhere.

While the installed base of clean energy is growing rapidly, the pace of investment this decade needs to rise to more than three times its current level\(^6\) (Exhibit 3). It is crucial that governments incentivise faster investment to secure both energy security and energy sustainability. There are signs of progress. The UK’s Energy Security Strategy targets making offshore wind the leading source of electricity generation as early as next year, and the EU’s REPowerEU plan seeks a 20% increase in wind and solar deployment this year alone.\(^7\) Both the EU and the UK recently doubled their targets for clean hydrogen production by the end of this decade, as part of plans that see more than a tripling of solar and wind power. 29 countries now have hydrogen strategies, up from just 3 in 2019, with a further 20 being prepared.\(^8\)

There is no escaping that a smooth transition will require some limited and targeted investment in fossil fuels. That’s because declining production of existing fields means some capacity must be rebuilt even as overall use of fossil fuel falls, and there is value in shifting to less carbon-intensive sources. In addition, Russia’s war underscores that a resilient system needs more diversified and reliable suppliers. The price of greater security of supply in the near term will be more stranded assets over the medium term.

1.5 degree-aligned transition pathways of the IEA and IPCC imply between $400 to $600 billion of annual fossil-fuels related investment every year this decade. Although that is roughly the current level of financing, that doesn’t mean the world is on track. We need a more granular breakdown of the use of

\(^6\) Annual average clean energy investment 2022-30. International Energy Agency, World Energy Outlook Fig 1.22
\(^7\) Clearly meeting these objectives will depend on credible policy action to support them – clarity on policies including feed-in tariffs, carbon credits and technology moratoriums have all been shown to incentivize activity.
\(^8\) BloombergNEF as of 7 April 2022.
proceeds of new fossil fuel financing across expansion, replacement, and reduction. GFANZ is ready to work with others to develop this. In parallel, governments must set the right incentives so that the expected life of every new project is consistent with the transition.

Exhibit 3: Fossil fuel investment had fallen in line with IEA net zero scenario, but clean energy not rising fast enough

<table>
<thead>
<tr>
<th>Oil and gas production</th>
<th>Clean energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billion USD (2020)</td>
<td></td>
</tr>
<tr>
<td>4 000</td>
<td>4 000</td>
</tr>
<tr>
<td>3 000</td>
<td>3 000</td>
</tr>
<tr>
<td>2 000</td>
<td>2 000</td>
</tr>
<tr>
<td>1 000</td>
<td>1 000</td>
</tr>
</tbody>
</table>

Source: IEA World Energy Outlook 2021

Financial Revolution

The Industrial Revolution was made possible by a financial revolution that transformed the nature of private financial intermediation, the focus of central banking, and scope of the international monetary system. The Net Zero Revolution will require changes at least as bold.

The rise of fractional reserve banking in the 19th century made possible the provision of the enormous capital required to build factories and develop the new energy sources to power them. Central banks became lenders of last resort (and in some cases informal supervisors) to provide the necessary stability to this new system of private money. A new international monetary system, based on the gold standard and centred on this City, enabled the free flow of capital that financed the explosion in cross-border trade and investment that powered the global economy.
This revolution in finance during the Industrial Revolution brought greater maturity transformation and increased financial leverage to the core of the system. To finance the Sustainable Revolution, we need to bring a faster net zero transition and reduced carbon leverage to the heart of our system (Exhibit 4). This requires an unrelenting focus on all aspects of the net zero transition from climate disclosure to country platforms.

Exhibit 4: A Financial System for the Sustainable Revolution

<table>
<thead>
<tr>
<th>Industrial Revolution</th>
<th>Sustainable Revolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fractional Reserve Banking</td>
<td>Financial System</td>
</tr>
<tr>
<td>- Maturity transformation</td>
<td>- Aligning with Net Zero transition</td>
</tr>
<tr>
<td>- Financial leverage</td>
<td>- ‘Carbon’ leverage</td>
</tr>
<tr>
<td>Central Banks</td>
<td>Central Banks / Supervisors</td>
</tr>
<tr>
<td>- Lender of last resort</td>
<td>- Climate disclosure</td>
</tr>
<tr>
<td>- Supervision</td>
<td>- Supervision of transition risks</td>
</tr>
<tr>
<td>International Monetary &amp; Financial System</td>
<td>International Monetary &amp; Financial System</td>
</tr>
<tr>
<td>- Gold standard</td>
<td>- Blended finance</td>
</tr>
<tr>
<td>- Free flow of capital</td>
<td>- Transition-aligned private flows</td>
</tr>
<tr>
<td></td>
<td>- Carbon markets</td>
</tr>
</tbody>
</table>

That’s why our goal for COP26 was to build a financial system in which every decision takes climate change into account. To this end, COP26 in Glasgow delivered 24 major reforms that are transforming the information, tools, and markets at the heart of finance.9

The foundation is clear, comparable, and decision-useful climate disclosure so that financial institutions can manage risks and seize opportunities associated with the climate transition. The IFRS Foundation’s International Sustainability Standards Board (ISSB) and the U.S. Securities and Exchange Commission10 recently released draft climate disclosure rules based on the recommendations of the Task Force on Climate-related Financial Disclosures, ensuring global investors will have access to the data they need. Drawing again on the TCFD, the SEC’s proposal contains several innovations including requirements to disclose any internal carbon prices, targets and transition plans that companies may have, as well as the line-item impacts of physical climate events and transition activities on consolidated financial

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Investor demand for climate disclosure reflects the growing realisation that addressing climate change is one of the greatest commercial opportunities of our time. Finance on the scale required—$3 trillion per year of additional clean energy financing needed by 2030—is now in prospect. As part of GFANZ, over 450 major financial institutions from 45 countries are committing to manage their balance sheets, totalling over $130 trillion of assets, in line with a 1.5-degree net zero transition. That’s around 40% of global private financial assets.

GFANZ members are united by their commitments – under the UN’s Race to Zero – to transition the emissions of their financed portfolios to net zero by 2050. GFANZ members have committed to use science-based guidelines across all emissions scopes and to interim targets that represent a fair share of the 50% decarbonization required by 2030. And they are developing net zero transition strategies and will report progress annually (Exhibit 5). The first wave of these reports has already begun, all founding members of GFANZ are required to have set these out before COP27 this November. In addition, GFANZ is supporting the development of an open data solution to increase the transparency and consistency across global transition-related data, which will be essential for stakeholders to assess global progress on the net zero transition.

Exhibit 5: Ending the Tragedy of the Horizon

<table>
<thead>
<tr>
<th>TODAY</th>
<th>12-18 MONTHS</th>
<th>2030</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Reporting</td>
<td>5 Year Decarbonization Plans</td>
<td>Fair Share of 50% Decarbonization</td>
<td>Net Zero</td>
</tr>
</tbody>
</table>

To be clear, the net-zero transition won’t mean flipping a green switch or investing only in companies that are already green. Transition means transition. Financial institutions must go to where the emissions are and back companies—including in heavy-emitting sectors like steel, cement, and

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12 www.gfanzero.com
13 Each sectoral alliance has set entry criteria which are summarized here: https://www.gfanzero.com/membership/
14 April 2021 GFANZ founded with 160 members responsible for $70tn of assets.
transportation—that have credible plans to transform their businesses for a net zero world. They will also finance traditional energy projects consistent with the climate transition, including helping to phase out stranded assets transparently and responsibly through clear frameworks. This means that, while carbon leverage (emissions per dollar invested) will decline across the system, in some cases, carbon leverage may increase for a defined period. GFANZ is committed to the imperative of real world decarbonization not the false comfort of portfolio decarbonization.

GFANZ has an ambitious work programme that is turning members’ commitments into action (Exhibit 6, Annex). Across seven workstreams, a hundred practitioners from sixty member institutions are working with forty members from the GFANZ secretariat and the sector-specific alliances as well as thirty expert advisors from NGOs and academia. Although the work is ambitious and technically complex, the pace of reform is much faster than that following the global financial crisis, when the G20 leaders mandated the Financial Stability Board to address the fault lines that had brought the system to the verge of collapse. Our timetable are dictated by the need to getting this vital work right and the imperative that we move as quickly as possible.

Exhibit 6: GFANZ is working to translate net zero pledges into climate action

<table>
<thead>
<tr>
<th>Transition-consistent Energy Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition plan framework for financial institutions</td>
</tr>
<tr>
<td>Guidance for real-economy company transition plans</td>
</tr>
<tr>
<td>Guidance on decarbonization pathways across sectors</td>
</tr>
<tr>
<td>Guidance on portfolio alignment</td>
</tr>
<tr>
<td>Frameworks to phase out high-emission assets</td>
</tr>
</tbody>
</table>

Between now and COP27, GFANZ will launch a series of publications, including guidance and frameworks that are essential for the financial sector to build a net-zero financial system, including:

- **A new globally applicable net-zero transition plan framework for financial institutions**, which sets out the components of a credible transition plan that supports real-world emissions reductions, with appropriate transparency and accountability;
• Guidance on the net-zero committed financial sector’s expectations around the transition plans of real economy corporates, so that financial institutions will have the information they need to finance real economy companies’ net-zero transition strategies;

• Guidance on use of decarbonisation pathways for different sectors so that financial institutions can effectively set ambitious decarbonization targets for different sectors, and assess the ambition and progress of companies’ net zero transitions;

• Guidance on developing and using forward-looking portfolio alignment metrics that will help reveal how well the portfolios of financial institutions are aligning with society’s climate goals;

• A framework to inform how financial institutions can support the transparent and responsible phasing out of high-emission assets; and

• Support for the government-run Just Energy Transition partnerships that will help finance more ambitious decarbonisation in emerging markets and developing economies.

We will publish recommendations and guidance on building a net zero financial system in the coming months. Given the fundamental importance of effective transition planning by financial institutions, we welcome engagement from all stakeholders. This includes policymakers who increasingly recognise that such planning is mission critical. That’s why at COP26, the Chancellor announced plans for the UK to become the world’s first net zero-aligned financial centre, with new requirements for financial institutions and listed companies to publish transition plans – which you will hear more about later today. The EU is also working on transition planning requirements, and I look forward to Commissioner McGuinness’ remarks tomorrow.15

In recent years, central banks, supervisors and regulators have been increasing their focus on managing climate-related financial risks, particularly transition risks. This recognises that financial institutions should not fail if society’s succeeds in its sustainability goals and that climate is the ultimate systemic risk from which no institutions can diversify. Today, over 100 central banks and supervisors (from countries that are responsible for over 90% of global emissions) are members of the NGFS. They are embedding climate risk assessment and management into central banking and supervisory activities,

15 EFRAG has recently opened a public consultation on its Draft European Financial Reporting Standards, which includes considerations around companies’ transition plans. https://www.efrag.org/lab3
including through the application of stress testing and scenario analysis to explore both microprudential and systemwide risks.

**Transforming the International Financial System**

As was the case during the Industrial Revolution, the Sustainable Revolution requires a new international monetary and financial system. I am in full agreement with Secretary Yellen that ‘this requires a new Bretton Woods.’ Until that happens, given the urgency, we need to maximise the impact of the outmoded system we have today. The world must mobilise an additional $1 trillion in annual financing for the clean energy transitions in emerging and developing countries (even apart from adaptation and resilience)—a quantum which has been unimaginable, but without which climate stability is not possible\(^{16}\).

Given the enormous resources of GFANZ, a radical new approach to mobilising private capital investment in emerging markets and developing economies can be developed. Specifically, GFANZ has called for new country platforms\(^ {17}\) that deploy blended finance at scale and with high multipliers, connect private finance with ambitious country NDCs, channel technical assistance, and manage the wind-down of stranded assets, such as coal generation. We have been developing specific proposals and financing commitments consistent with this approach (including catalytic initiatives such as CFLI and Fast Infra). We welcome the launch of new Just Energy Transition Partnerships (JETP), and are dedicating significant resources to support private-sector mobilisation under them.

**Conclusion**

Finance will not drive the net zero transition on its own. Finance is an enabler, a catalyst that will speed what governments and companies initiate. Until now, the world has been caught in a timidity trap, knowing what needs to be done, but dithering towards climate disaster. The shock of the energy crisis must prompt a comprehensive response. If the world truly wants the revolution towards a sustainable, resilient, and fair energy system, finance will be there.

\(^{16}\) Reflects clean energy investment need only. In reality, the investment need required will be much bigger and include other types of climate finance. Source: *Financing clean energy transitions in emerging and developing economies*, IEA, 2021. Reflects clean energy investment need that will be required by the end of the decade within EMDEs if the world is to meet net zero by 2050. Estimates exclude China.

\(^{17}\) Country Platforms Action Plan. [https://www.gfanzero.com/resources/](https://www.gfanzero.com/resources/)
ANNEX: GFANZ 2022 Work Program

**GFANZ 2022 Work Program**

**Financial Institution Net-zero Transition Plans**
To finance or enable climate solutions, the net-zero transition of firms, the managed phaseout of stranded assets, and firms already aligned to net-zero

- Managed Phaseout of Stranded Assets
- Real-economy Transition Plans
- Sectoral Pathways
- Portfolio Alignment Measurement

**Mobilizing Capital**
Facilitating the net-zero transition in Emerging Markets & Developing Economies (EM&DEs)
- Augment International Finance Architecture
- Scale Market-Making Initiatives
- Drive Country-Targeted Solutions

**Net-zero Public Policy**
Communicating the wider reforms needed to align the financial system to net-zero while ensuring an orderly and just transition, and embedding GFANZ and relevant partner deliverables within financial and regulatory systems

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**Building blocks of the net-zero financial system**

- Standard-setting and disclosure requirements (e.g., TCFD, ISSB, SEC, EFRAG)
- Science and industry-based pathways (e.g., IPCC, IEA, OECM, SBTi, MPP)
- Nationally Determined Contributions (NDCs) and country climate plans
- Data availability and comparability
- Net-zero measurement/accounting (e.g., PCAF, GHG Protocol)
- Taxonomies and classification systems
- Carbon markets and undergirding infrastructure (e.g., CCPs)
- Other climate-aligned policy and regulation

**KEY:** $X \rightarrow Y$ Indicates that $X$ is a reference for or input into $Y$