Mary Schapiro Remarks to the Ceres Global Summit

Harnessing the Power of the Finance Sector to Advance the Net-Zero Transition

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Good morning, and thank you, Barney, for that kind introduction.

I want to thank Ceres for inviting me to speak today. At the Glasgow Financial Alliance for Net Zero, or GFANZ, for which I serve as Vice Chair, we work closely with Ceres, which has been a pioneer in sustainable business.

For nearly 35 years, Ceres has consistently worked with companies, investors, and policymakers to make sustainability a centerpiece of our economy.

Not as a political or ideological statement, but because sustainability makes good business and investment sense.

I am delighted to be with you today to talk about the financial sector's critical role-- alongside governments, businesses, and civil society—to support the net-zero transition.

That transition won't happen easily or overnight.

It's going to take laser focus, political will, innovation and hard work, during the most critical years, between now and 2030, to deliver the emissions reductions necessary to limit warming to 1.5 degrees and avoid the worst impacts of climate change.

While Monday marked the beginning of spring in the northern hemisphere, it follows a winter that was among the warmest on record in many parts of the world.

Monday also saw the release of the latest IPCC report warning us that time is quickly running out to keep within the 1.5-degree threshold and that accelerated action is needed.

We are seeing more examples of extreme and persistent heatwaves, worsening droughts leading to more severe wildfires, more frequent extreme storms and floods, and rising sea levels, all of which scientists are increasingly attributing to our changing climate.

These physical impacts already have real economic consequences, and will continue to threaten financial stability as they worsen over time.

I came to focus on climate after a long career as a financial regulator, including during the Global Financial Crisis, which exposed me to the challenges of building a more resilient financial system.

Climate change is a risk we cannot diversify away from, and so addressing this risk will require a transformation of the entire economy and the biggest restructuring of our energy system since the industrial revolution.

The challenge is that we need to do this at a pace more like the digital revolution, while ensuring that all communities have access to clean, reliable, and affordable energy.

All the best science tells us that to avoid even worse and perhaps irreversible climate change impacts, we must cut greenhouse gas emissions in half by the end of this decade.

Countries representing over 90% of global GDP have now made net-zero commitments, and they are increasingly putting in place the policies to back those commitments.

With clear direction in policy, the shape of the transition is also becoming clearer, which means that there is meaningful risk to those companies that do not account for the transition in their business strategies.

But despite the unimpeachable business logic behind sustainability and the multi-trillion-dollar opportunities around the energy transition, we are still moving far too slowly to decarbonize our economies and reduce the 50 billion tons of greenhouse gasses we emit each year.

That is the background against which GFANZ was launched two years ago in the run-up to COP26.

And, I'm honored to lead GFANZ alongside co-chairs Mike Bloomberg and Mark Carney.

From the start, the vision for GFANZ has been to bring together the entire value chain of the net zero-committed financial sector -- banks, asset owners, asset managers, insurers, financial services providers, and others -- to address shared challenges, most notably developing the common tools and frameworks needed to deliver on net-zero commitments.

Step one was building a critical mass of financial institutions voluntarily committed to net zero across the entire sector.

Of course, it helped that Ceres, other investor networks, and the UN had already begun to convene asset managers and asset owners into net-zero alliances ahead of the GFANZ launch.

Throughout 2021, in addition to the existing alliances, groups of leading banks, insurers, investment consultants and financial service providers created their own sector-specific net-zero alliances as part of the GFANZ coalition.

When GFANZ first launched in April 2021, there were 160 members.

By November last year, just 18 months after the GFANZ launch, more than 550 financial institutions across more than 50 countries and comprising about 40% of global financial assets had joined net-zero alliances.

And the coalition continues to grow, despite the pushback against addressing climate risk in some places, with more financial institutions recognizing the business imperative of aligning with the net-zero transition.

Moreover, to ensure that the GFANZ coalition becomes truly global, last year we launched regional networks in Africa and Asia and will launch a network in Latin America later this year.

Each financial institution joining a net zero alliance commits to robust and ambitious sector-specific criteria, including independently setting science-based, near-term targets and achieving net zero emissions by 2050 or sooner. They also commit to report their progress annually.

Setting near-term targets for 2025 or 2030 is the first step toward implementing commitments.

Target-setting itself is a complex process for which many of the alliances have created their own methodologies in partnership with technical experts.

In 2022 over 300 interim targets were submitted by members of the GFANZ alliances, many ahead of schedule, representing clear progress in implementing commitments.

Over half the banks in the Net Zero Banking Alliance have now set interim targets for 2030 using science-based, 1.5-degree centigrade scenarios.

And within the Net Zero Asset Managers initiative, nearly 40% of the $42 trillion in assets managed by member firms are now committed to be managed in line with achieving net zero by 2050.

But to achieve long-term commitments and near-term targets, companies need a plan.

A robust transition plan is central to demonstrating the credibility and integrity of net zero commitments, because it translates a commitment into specific actions, metrics, and governance mechanisms.

Every business, including financial institutions, needs a strategy for how it will navigate the risks of climate change and seize the economic opportunities from the net-zero transition.

If 2021 was the year of mainstreaming net zero commitments and 2022 was the year of target-setting and developing the frameworks to operationalize these commitments, we are now calling 2023 the year of transition plans.

One of our most important priorities this year is working with the net zero alliance members to scale the development of net zero transition plans using a common framework.

The good news is that by building on the excellent sector-specific work that the alliances and third-party technical initiatives have done, GFANZ has created a Net Zero Transition Plan framework that has broad application for both financial institutions and corporates.

The GFANZ Transition Plan framework can help financial institutions across all sectors, as well as the companies they lend to, invest in, or underwrite, to implement their own transition plans and measure progress in a consistent way.

But the principles based GFANZ guidance provides a common framework for all financial sectors.

It identifies ten components of a transition plan grouped into five themes:

- Governance, or ensuring that there is accountability, incentives, and proper training for meeting the transition plan objectives at all levels of the organization

- Objectives and priority setting, or translating the long-term commitment into specific targets and a high-level strategy to achieve them
- Implementation strategy, or how you work across the business to align products and services, decision-making processes, and organization-wide policies with transition objectives
- Engagement strategy, or how you align your engagement with the public sector, industry peers, and your clients and portfolio companies with transition objectives.
- And finally, metrics and targets, or how you're measuring progress.

The framework also lays out four key strategies for financing real economy decarbonization:
- The first is to support climate solutions - the technologies and products that will enable the economy to decarbonize.
- The second is to finance business models already aligned with a science-based pathway to achieve net zero.
- The third strategy is going where the emissions are and backing those companies with credible transition plans to converge with a science-based decarbonization pathway. The world cannot divest its way to net zero.
- And finally, climate transition means backing the managed phaseout of those high-emitting assets otherwise at risk of being stranded in the transition to net zero.

These aren't one-size-fits-all rules – every institution will need to define its own path based on its business model, client base, and regulatory exposures.

But converging around a practitioner-led common framework for net zero transition plans is essential to reducing market fragmentation and reporting burdens as well as driving adoption by policymakers.

A common voluntary framework that has been globally accepted has the best chance of becoming the basis for mandatory requirements.

That was my experience leading the TCFD.

At the request of the Financial Stability Board, TCFD leveraged the great work of CDP, CDSB, SASB, GRI and more, to design a voluntary global framework for mainstreaming decision-useful financial disclosure on climate.

We have now seen the TCFD disclosure framework become the law in multiple jurisdictions, form the basis for the ISSB climate disclosure standards, and be used as the foundation for the SEC's proposed climate disclosure rules.

The challenge is that this time around, we must do it much more quickly.

The TCFD will have taken nearly ten years from its conception to the point by which firms will start making mandatory disclosures under the ISSB standards.

We know that we don't have that time if we are to achieve the almost 50% reduction in emissions we need by 2030.

Luckily, we're starting to see some progress towards transition plans entering regulatory requirements.

The UK Transition Plan Taskforce, for which I serve on the steering group, has purposefully designed its framework based on the GFANZ framework to inform its recommendations for disclosure of transition plans.

In addition, we are engaging with the ISSB, NGFS, the FSB, EU policymakers and G20 processes to discuss the importance of transition planning in meeting global climate goals and mitigating risks to financial stability.

Another key area we are working on is data accessibility.

Even with the advancements of the past several years, we are still far from having the level of climate-related disclosure and access to data that all stakeholders need.

That is why last June, Mike Bloomberg and President Emmanuel Macron announced the formation of a Climate Data Steering Committee to address the lack of broadly accessible, high-quality, and consistent data that can enable organizations and governments to turn net-zero pledges into action and provide public accountability.

The committee’s members are a diverse group of international leaders representing institutions responsible for policy initiatives and creating frameworks for the provision of data.

They are informed by advisory panels comprising global financial data providers and civil society organizations. And it is my honor to serve as Chair of this peerless group.

With a planned launch of the NZDPU beta pilot at COP28, financial institutions and other stakeholders will have open access to consistent data on thousands of companies’ Scope 1, 2, and 3 GHG emissions, carbon credits, and emissions reduction targets.

Ultimately, the NZDPU is being designed for use by the UNFCCC to make accurate, trusted, and verifiable climate transition-related data available in a single place for the first time so that regulators, investors, civil society and other stakeholders can hold businesses to account for their commitments.

In addition to scaling the availability of data and the adoption of net zero transition plans, there are other urgent areas where we need to mobilize the financial sector to achieve our shared net-zero goals.

First, we need to accelerate clean energy investment to phase out fossil fuels. We will only phase out coal, oil, and gas by displacing demand for them through ready alternatives without disruptions in access to energy.

Research by BloombergNEF found that in practice, this requires that by the end of the decade, for every dollar invested in fossil fuels, another four must be dedicated to clean energy.

Today, that ratio is one to one. This means that the main challenge for the transition will be how quickly we can scale up investment in renewable energy.

Moreover, there is no transition to a net zero global economy without mobilizing more capital to emerging markets and developing economies.

Unlocking international private finance requires addressing the higher real and perceived risks of investing in those economies as well as building capacity to address the shortage of bankable projects.

GFANZ is helping on these fronts with our work to support the G7's Just Energy Transition Partnerships in Indonesia and Vietnam, which are mobilizing tens of billions of dollars in transition finance, as well as the Egyptian government's Nexus for Food, Water, and Energy program.

We are also working with our alliance partners and others to make the case for Multilateral Development Banks to play a more significant role in mobilizing private investment and blended finance for the transition.

And we are supporting efforts to help build high-integrity voluntary carbon markets that mobilize much needed finance for the energy transition and preservation of nature in emerging markets and developing economies.

While private finance and investment are vital for success, the financial sector cannot achieve the transition on its own.

It acts as a catalyst and enabler for what governments and companies initiate.

That is why, threaded throughout all our work, is engagement with policymakers to create the public policies required to enable the transition: from mandating transition plan disclosure to pricing the externalities of carbon emissions and phasing out fossil fuel subsidies.

Here again I want to salute Ceres for its policy engagement in North America.

Urging companies to align not only their own lobbying efforts but those of their industry associations to net zero goals is essential if we want to accelerate policy progress.

Even more important during this time when some would penalize financial institutions with net zero commitments, is the work Ceres and others are doing to reinforce the fiduciary imperative to incorporate risks like climate change into investment decision-making.

This is the moment when the voice of a large coalition of net-zero-committed institutions can make a positive difference.

Despite the challenges of the last 12 months, we have seen evidence that rapid change, at the scale we need, is possible.

Here are just a few examples:

While the war in Ukraine is a terrible human tragedy, it has also cast a bright light on the energy security benefits of the clean energy transition.

Investment in the energy transition has doubled in two years to more than $1 trillion, despite disruptions to global supply chains and geopolitical tensions.

The Inflation Reduction Act and Repower EU are promoting increased adoption of new clean technologies on both sides of the Atlantic.

The publication of ISSB standards and the EU's CSRD will promote more significant climate disclosure, and the launch of the NZDPU will boost data accessibility.

The GFANZ coalition of the willing continues to grow and deliver progress.

We knew from the start that our goals were ambitious. Now we need to back that ambition with transition planning and credible action to finance emissions reductions.

I'm looking forward to 2023 truly being the year of the transition plan, as firms across the financial sector and the broader economy produce credible, comprehensive, and comparable plans to finance the transition to a net-zero economy.

In this season of spring and new beginnings, I want to close by urging all of you whose firms have not yet made a net zero commitment to do so and join our growing coalition of changemakers and transition leaders.

Thank you.