<u>Keynote Speech at the Hellenic Capital Market Commission (HCMC)'s Sustainable Finance Conference</u>

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Good morning. It is a huge honour to have been invited to speak with you today at the Hellenic Capital Markets Commission conference in the margins of the IOSCO Annual Meeting.

It is wonderful to be here in Athens. Being in a place with such a long and rich history, I thought I might begin by reflecting on how the gods of ancient Greece might see the existential challenge of our time, namely climate change.

Zeus, god of the sky and weather, would be looking down on a continued increase in global carbon emissions, global surface air temperatures recording an annual average of 1.5 degrees above pre-industrial levels for the first time in February of this year, and extreme weather events increasing in frequency and intensity across the globe.

Poseidon, god of seas, rivers and floods, would be feeling the impact of ocean warming where temperatures have hit records every day since March 2023, and observing droughts and floods having huge impacts on communities, infrastructure, agriculture and trade in affected regions.

And last, but not least, Gaia, the personification of the Earth, would be watching as the planet loses an area of primary forest greater than the size of Belgium each year.

It can be difficult to abstract from these meta trends to the critical work delivered by financial regulators, including IOSCO, and the securities market regulators that are its member organisations. But I am going to try and do just that and give a private sector perspective on the areas where the financial sector can make the most difference.

In doing so, I will draw on the work we are taking forward in the Glasgow Financial Alliance for Net Zero (GFANZ), of which I am vice-chair, working with co-chairs Mike Bloomberg and Mark Carney.

For those who are less familiar with our work, GFANZ was founded in 2021 under the UK COP presidency as part of a wider UN initiative to galvanise non-state actors to transition their own activities to net zero. GFANZ supports over 675 financial institutions, from 50 countries, which have individually made commitments to support an economy-wide transition to net zero in line with 1.5 degrees.

Our efforts are voluntary, and as such will not be sufficient on their own and without government action. But voluntary efforts are already starting to change the financial system.

Since 2021, a growing number of financial institutions have made net zero commitments and set targets to deliver on those across the sectors they finance and are now looking to scale the provision of transition finance to support the decarbonisation of their clients' activities.

To deliver on their commitments, financial institutions are increasingly developing transition plans, and engaging with the companies they finance to understand how they plan to transition to net zero.

In the financial sector, we can see that the number of global firms voluntarily issuing such plans is increasing quickly. We expect that it will reach more than 250 this year.

Beyond transition plans, financial institutions are starting to pivot the finance they provide, which we can see in metrics such as the International Energy Agency's ratio of finance flowing to new, low carbon energy capacity relative to that flowing to existing energy sources. For every $1 spent financing fossil fuels, over 1.7 is now spent on clean energy. Five years ago, this ratio was 1:1.

These changes have implications for, and identify gaps that can only be filled with, action by policymakers. I will focus on a number that are most pertinent to securities regulators: disclosures and data; transition planning; transition finance; and carbon markets.

Disclosures and data

We have taken great strides in closing the climate data gap in recent years, and I know many in this room will have played an instrumental part in this, including colleagues from ISSB, IOSCO and its member organisations.

As many of you will know, I led the secretariat for the Task Force on Climate-related Disclosures (TCFD), and through this private sector-led, voluntary work we developed a framework for climate-related financial disclosures that worked for market practitioners and was used by policymakers and standard-setters as a basis for regulatory requirements to deliver consistent, comparable and decision-useful information in many jurisdictions.

With a view to ensuring global consistency, the agreement of the ISSB's final climate disclosure standard and endorsement by IOSCO - all in record time - was a huge achievement. The degree of consistency and interoperability between the ISSB, EU and US approaches is to be commended. In this context, we were happy to conclude last year that the TCFD had fulfilled its remit and that its work would be taken forward by the IFRS Foundation.

But our work on data is not yet done.

First, it is critical for jurisdictions to follow through on timely implementation, ensuring alignment with ISSB wherever possible. This is in the hands of national regulators, many of whom are represented here today.

Second, we need to ensure that the foundational data that is disclosed is also made available to a broad range of stakeholders, in an easily accessible way, free of charge.

With support from a set of global standard setting bodies and jurisdictions as part of the Climate Data Steering Committee, we are making progress towards that objective by developing a public good database and platform - the Net Zero Data Public Utility (NZDPU). Our vision is to include emissions data for every major company, their targets for reducing emissions, and their performance against those targets.

This will allow a broad set of stakeholders to see which companies are setting ambitious targets and making progress and which are not, with comparisons possible between companies in every sector.

Success in making this information available will rely to some degree on being able to automate the collection of data from public disclosures, which is infinitely easier with consistently tagged data. Following ISSB's lead and integrating tagging and a digital taxonomy into national implementation would be a big step toward the realisation of the NZDPU project.

Transition plans and transition planning

While disclosure defines the problem, action plans are needed to fix it. So, the second area I want to focus on is transition plans. Ultimately every country, city, company, and financial institution should have a net-zero transition plan which seeks to align with science-based pathways to 1.5 degrees, to fulfil their ambitions and commitments.

GFANZ was founded in large part to take forward the TCFD recommendation that guidance for transition planning be developed. And GFANZ has done so through industry-led work and with extensive public consultation to build a voluntary framework to help financial institutions and businesses develop and disclose strategic plans to support transition of their activities.

Our framework sets out what is recommended across governance, objective setting, implementation, engagement and measurement of progress for these plans to be credible, comprehensive and comparable.

These transition plans will help financial institutions align their climate and broader corporate strategies, and make the operational changes needed to deliver on their net zero commitment.

Get this right, and we can support the development of a financial system that fosters and thrives in the transition to net zero: supporting growth and creating jobs while getting emissions down.

Without yet being required to do this, a growing number of global financial institutions are undertaking transition planning against best market practices. Financial institutions do this knowing regulation is coming in a number of jurisdictions.

In this context though, global firms are worried primarily about three issues.

First, they worry that requirements to undertake transition planning will only apply to financial institutions and not to real economy companies. Financial institutions are only able to deliver on their net zero objectives, if their clients and counterparties also transition and they are supported by broader government policy.

Second, they worry about fragmentation in the standards set for transition planning and that the global standard setters won't take coordinated action to mitigate this.

And third, they worry that the regulatory response to transition planning is one that encourages divestment to deliver a greening of individual balance sheets rather than investment to deliver economy-wide transition.

Common guidance for transition plan disclosures, perhaps developed through a process similar to that for today's common climate standards, with an important role for ISSB, could help put expectations for corporates and the financial sector on a level footing and address costly fragmentation that slows real world decarbonisation.

Transition finance

The third area I want to touch on is transition finance. Delivering net zero transition is a system-wide challenge that will require companies across the economy to align their activities and their balance sheets with appropriate net zero pathways. This will happen at different rates and in different ways across sectors and economies.

GFANZ has identified four financing strategies all of which need to play their part to support an economy-wide transition. These are not simply about financing green but involve going where the emissions are to get them down. The strategies are:

- Financing climate solutions, which directly remove or reduce GHG emissions, or are enablers necessary to scale up low carbon technologies;
- Financing "Aligned", which represents the financing or enabling of entities that are *already aligned to a 1.5 degrees C pathway*, whatever their sector and as such this can include high emitting firms on an appropriate pathway to net zero;
- "Aligning", which represents financing entities committed to transitioning in line with 1.5 degrees aligned pathways and backed by a credible transition plan, a set of KPIs and evidence of performance against targets; and
- Managed phase out, where finance actively supports the early retirement of high-emitting physical assets such as coal-fired power plants.

Financial institutions flag that if official sector definitions of what good looks like in relation to transition - be that through taxonomies, labels or frameworks - are too narrowly defined, their ability to allocate finance to help get emissions down through time could be constrained. That is likely to be particularly acute in terms of financing in emerging markets and for high emitting sectors that are seeking to finance investments to decarbonise.

As authorities consider the further development of their national markets for transition finance, and the associated market frameworks, we would encourage you all to think broadly and consider the range of different financing approaches we need to get finance to where the emissions are to get them down in support of credible transition plans.

Carbon markets

Finally on carbon markets, now is the time to grasp the nettle to create globally integrated high integrity Voluntary Carbon Markets (VCMs).

VCMs can provide the finance necessary to protect rainforests, restore abandoned and degraded land, accelerate the closure of coal power stations to support transition to renewables, and to catalyse investments in innovative technologies.

In particular, carbon markets have the potential to provide hundreds of billions of dollars of annual cross-border capital flows from advanced to emerging market economies where many of the best decarbonisation opportunities are located.

In 2024 and 2025, global policymakers will be able to draw on a number of new supply and demand side integrity standards designed to deliver high integrity markets.

IOSCO has published draft good practices for VCMs which, once implemented, will help ensure that these markets meet the financial market integrity practices typically expected in capital markets.

In late 2023, the Integrity Council for the Voluntary Carbon Markets delivered a set of Core Carbon Principles, designed to address supply side quality issues that have blighted these markets. ICVCM is now making good progress in assessing both existing credit developers and existing credit methodologies against these standards.]

Companies buying CCP-labelled credits will be able to have greater confidence in their quality and can - by meeting the expectations set out in the near final guidance from the Voluntary Carbon Markets Initiative (VCMI) - show how use of high integrity credits is consistent with a high ambition pathway to net zero.

With this progress on supply, demand and financial integrity we should expect that VCMs will develop and will move up policymakers' agendas over the coming year. As they do, there is a big opportunity for the G20 and Brazil COP presidency to drive policymaker coordination and give the markets the shot in the arm they need to become a core part of the net zero transition architecture.

Closing

Returning to the theme of Greek mythology, and to Cassandra, the princess of Troy.

Cassandra was condemned by Apollo to a future of having perfect foresight, but never to be believed. Troy was sacked and Agamemnon murdered despite Cassandra's warnings.

Fortunately, the climate scientists of today are no longer modern-day Cassandras, warning of impending disaster, with no one paying attention.

We are making progress, but we still have a lot of work to do to meet the Paris Agreement objectives. For sure, the financial regulatory community and the private finance sector alone cannot drive the transition - that relies on government policy, technological development, and wider societal choices.

But with climate disclosures, transition plans, transition finance, and VCMs we can play our part in ensuring that finance is an enabler of the transition and not a barrier to it.

These are all areas that those in this room can play a significant role in delivering and we would welcome your partnership and support in ensuring these pieces are in place on the fastest possible timeline.

Thank you.