



Inquiry: Design of a
Sustainable Financial System



Financial reform and the green economy

Exploring complementary structural policies

Nick Robins, GGKP, January 2015

Financial reform & the green economy



- Financial system reforms are **part of the solution** to rapidly scaling capital for sustainable development
- Such interventions can **complement** action in the real economy and deployment of public capital
- Examples of financial **policy innovation** are growing globally, yet remain fragmented
- 2015 could be a **milestone year** for linking financial reform and sustainable development

“In this age of diminished trust, it is the financial sector that takes last place in opinion surveys... [It] still prizes short-term profit over long-term prudence, today’s bonus over tomorrow’s relationship”



3 Inquiry's aim and approach

“Advance policy options that would deliver a step change in the financial system’s effectiveness in mobilising capital towards a green and inclusive economy”

**A 2 year mandate,
reporting in late 2015**

WHY should rules governing the financial system be used in pursuit of green & inclusive outcomes ?

WHAT rules governing the financial system have been, and might be deployed as effective instruments?

HOW rules can be deployed given the complexities & competitiveness concerns of financial actors and nations ?

“Financial regulators need to lead. Sooner rather than later, they must address the systemic risk associated with carbon-intensive activities in their economies.”

Jim Kim, President, World Bank

Inquiry: a global network of partners



Working with the IFC and CalPers to assess policy needs to unlock institutional investors green investment



Working with Febraban and FGV to assess the Brazilian experience.



Working with the Frankfurt School of Finance and Management to identify and assess good practice green financial policies



Working with the World Bank to explore capital markets frameworks and the green economy.



Working with the Central Bank of Bangladesh to assess its sustainability-related monetary policy innovations



Working with the Principles for Responsible Investment to explore investor engagement on financial policy & regulation



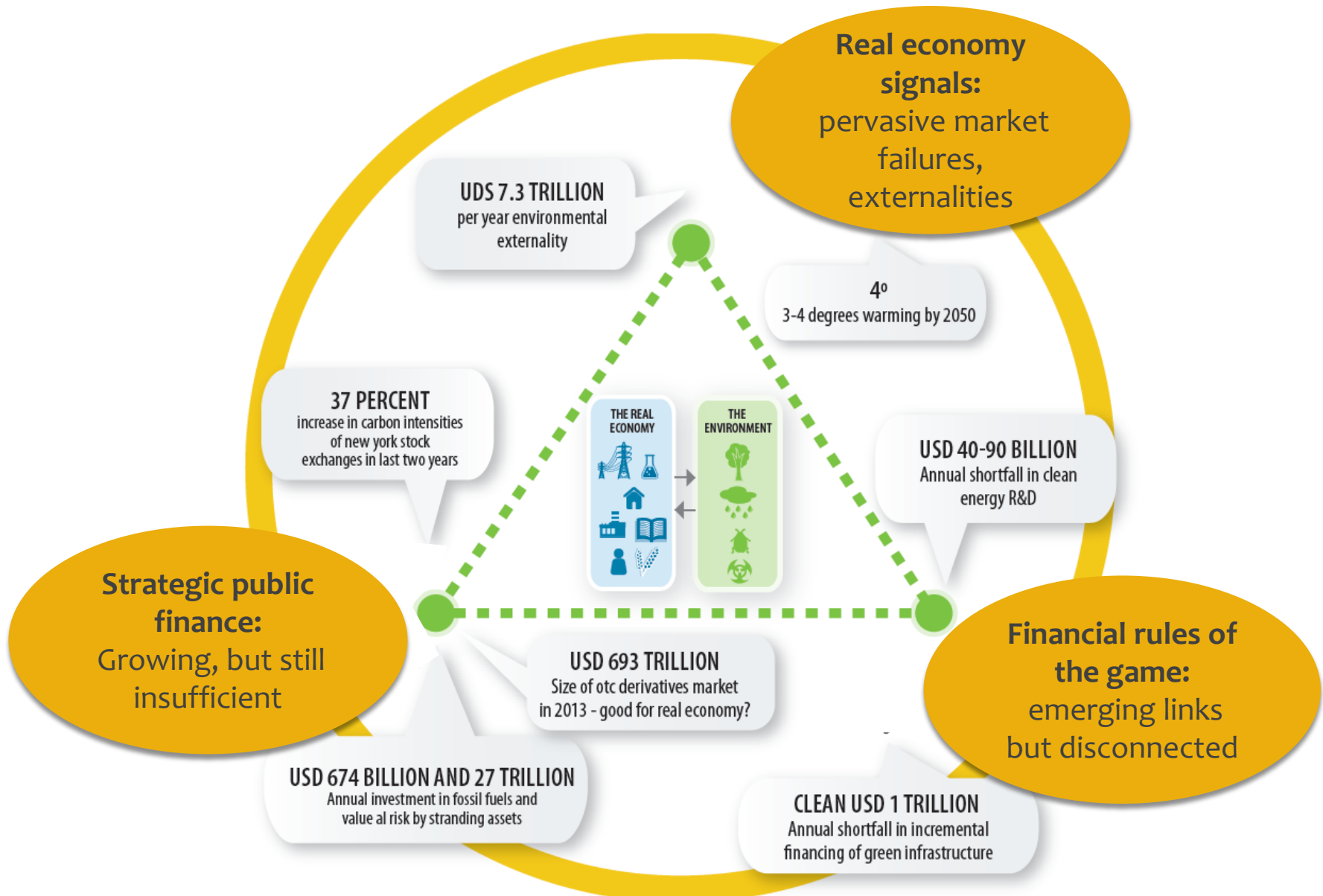
Working with the People's Bank of China to identify and progress specific green finance proposals in China



Working with the Global Green Growth Initiative to assess the South Africa experience.



Mobilising finance: the triple challenge



Why intervene in the financial system?



*Systematic
market
failures*

- Overcoming asymmetric information, misaligned incentives, short-termism and associated accountability failures.

*Systemic
risks*

- Ensuring that the market can respond effectively to a new set of environmental and social risks

*Enabling
innovation*

- Stimulating the standards and regulations required to catalyze productive financial innovation

*Policy
coherence*

- Ensuring coherence between financial regulation and wider goals, such as employment, growth, financial inclusion or environmental security.



Brazil: innovating for sustainability

Self Regulation and the Financial Industry in Brazil



Mission directed finance: Banco do Brazil & BNDES have sustainable development as their goal, driving credit allocation & considering green bonds

Market disclosure: The BM&FBovespa stock exchange has promoted sustainability for a decade driving ESG disclosure across all listings.

Sustainability Risk Regulation: Brazil's Central Bank (BACEN) issued guidance (2011) on sustainability under Basel III and has mandated (April 2014) that all banks require environmental & social risk systems. Concerns remain on financial liability for environmental damage



The Inquiry is working with Febraban and FGV to establish a baseline on financing for the green economy and identify priorities for further action across the Brazilian financial system



China: steering the green transition



System wide focus on green finance: Strategic intent to install policy framework to steer capital away from resource/pollution intensive sectors, and towards resource efficient innovation

Green Credit Guidelines: The CBRC's Green Credit Guidelines now assess the entire balance sheet of licensed entities. Currently c8.9% of China's RMB60 trn lending is compliant; this is expected this to rise to 100%.

Stranded assets: China's resolve to rapidly reduce air pollution involves major investments, and enforced closure of iron and steel, cement and coal plants. Discussion of '*environmental stress tests*' to identify assets at risk.

Green credit criteria taking shape

Updated: 2012-05-16 17:00

By Zheng Yanpeng (chinadaily.com.cn)

CHINADAILY.com.cn

The Inquiry is collaborating with the Peoples Bank of China and the Development Research Center of the State Council to identify green financial policies, regulations and standards relevant to China

UK: financial stewardship & sustainability



theguardian

'Carbon bubble' poses serious threat to UK economy, MPs warn

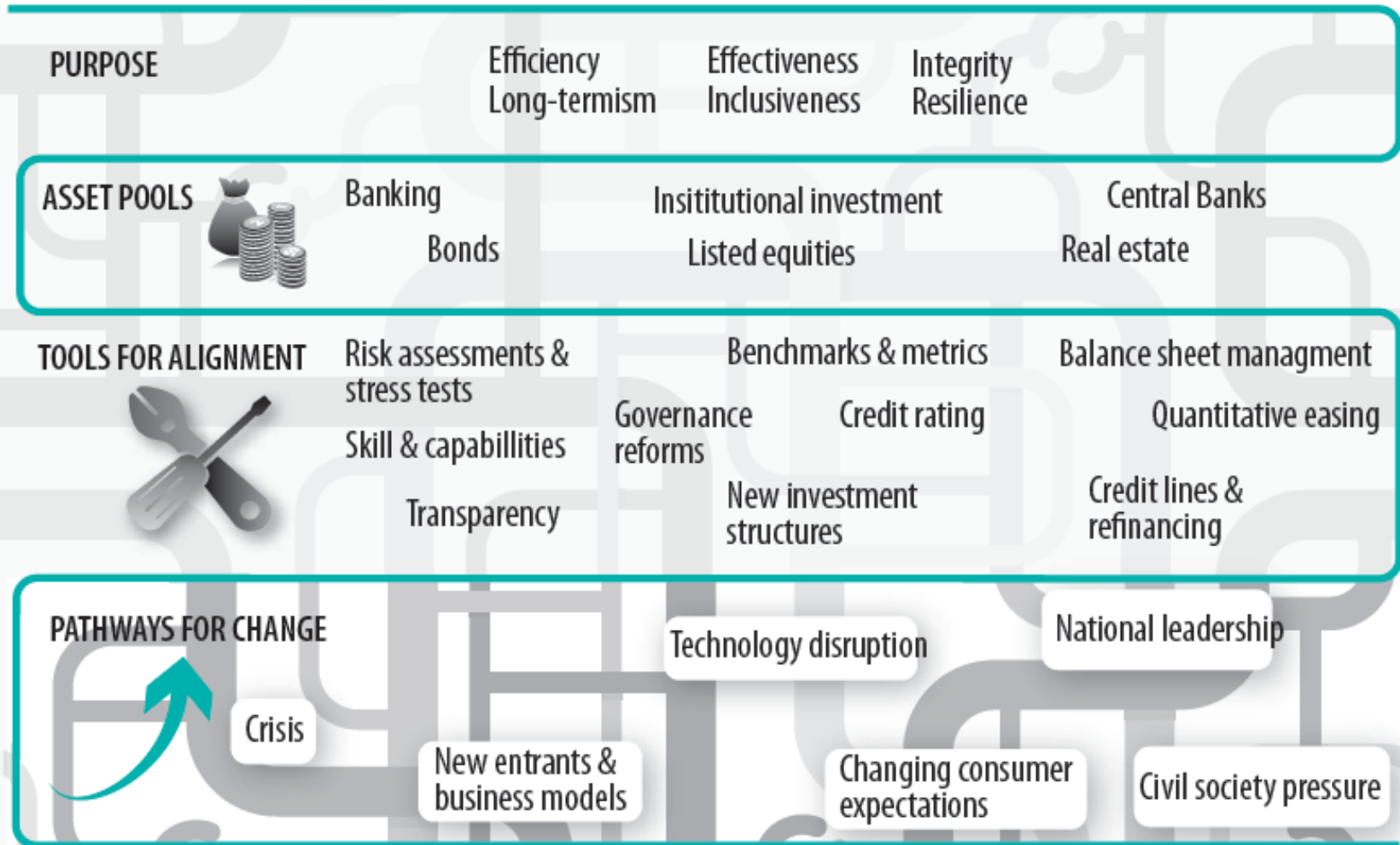
Extending Responsibility: The UK has introduced the Stewardship Code and new guidance on fiduciary duty to promote long-term investment incorporating sustainability factors

Stranded Assets: Investor concern about the potential threat of 'unburnable carbon' for fossil fuel' is prompting demands for better disclosure of climate risks

Insurance Regulation: The Prudential Regulatory Authority which regulates banks and insurers is exploring the links between climate change and insurance supervision

The Inquiry is working with UK investors, analysts and regulators to explore how to manage the long-term sustainability challenges for the UK financial system

From system purpose to pathways



Financial reform at the Climate Summit



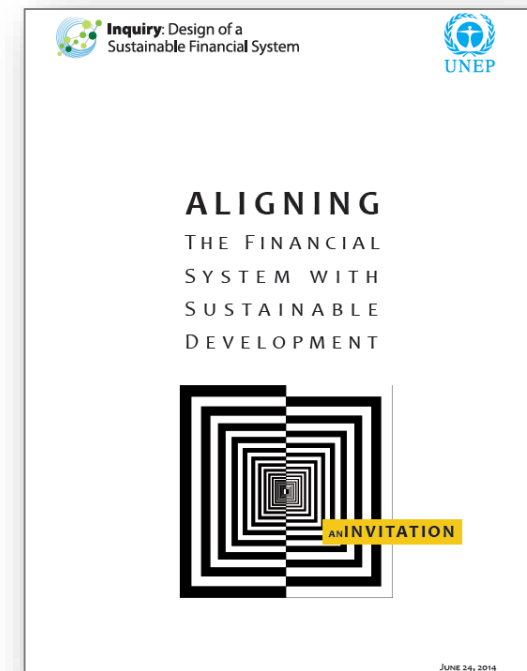
- **Policy coherence:** USD24trn AUM called on governments to ‘consider the effect of unintended constraints from financial regulations on investments in low carbon technologies and in climate resilience’
- **Market creation:** USD2trn AUM called on governments ‘to act through policy, regulation, risk mitigation, guarantees, tax credits to support issuance of bonds that address climate change’
- **Investor transparency:** The Portfolio Decarbonisation Coalition will engage ‘governments on eventual financial regulatory components’ of portfolio disclosure and decarbonisation for USD500bn AUM
- **Climate stress tests:** A UN and insurance sector coalition will explore how to apply 1 in 100 year solvency tests for natural disasters across the financial system in banking, investment and securities.

“My friends, this is it. We have 15 months to put a regulatory framework in place that is going to guide us over the next 30-50 years.” **Christiana Figueres, Executive Director, UNFCCC**

Themes for discussion



- **Purpose:** how to incorporate sustainability into financial system purpose and policy mandates?
- **Institutional:** how to broaden the institutions involved in the transition (eg central banks)?
- **Risk:** how to extend time horizons and risk factors in financial decision-making?
- **Fiscal:** how to examine the efficiency & effectiveness of financial system fiscal subsidies?
- **Culture:** how to relink financial culture to the real economy, customers and citizens?



2015 - A Triple Convergence?
Financing (Addis), Global Development (SDGs) & Climate (Paris)

Optimism and confidence



“There is no reason why we should not feel ourselves to be free to be bold, to be open, to experiment, to take action, to try the possibility of things.

And over against us, standing in the path, there is nothing but a few old gentlemen, tightly buttoned up in their frock coats, who only need to be treated with a little friendly disrespect and bowled over like ninepins.

Quite likely they will enjoy it themselves – once they have got over the shock”

J. M Keynes, 1931



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