



Inquiry: Design of a Sustainable Financial System



The Financial System We Need

Aligning the financial system with sustainable development

Nick Robins, Greeninvest, Lima, October 2015

INQUIRY: *key insights*



Financing for sustainable development can be delivered through measures focused on the financial system, as well as the real economy.



A growing number of policy innovations have been introduced by both developing and developed countries, demonstrating how the financial system can be better aligned with sustainable development.



Systematic national action can now be taken to shape a sustainable financial system, informed by current trends and complemented by international cooperation.

INQUIRY: *mandate and practice*

MANDATE

Identify policy options for aligning financial system with sustainable development

→ Focused on environment

ANALYSIS FRAMEWORK

Levers for change

Initial assessment of potential for impact and ease, cost and risk

FINDINGS

Diverse starting points
→ clusters of approaches emerging



NEXT STEPS

Recommendations for national action and international collaboration

FRAMEWORK FOR ACTION

Packages of policy proposals



Upgraded governance

TOOLKIT

38 approaches in four clusters



RECEIVING WISE COUNCIL

ADVISORY COUNCIL



**Kathy
Bardswick**

CEO, The
Cooperators,
Canada



**Naina
Kidwai**

Group General
Manager &
Country Head,
HSBC India



**Maria
Kiwanuka**

Minister of
Finance,
Government of
Uganda



**Rachel
Kyte**

Group Vice
President,
World Bank



**Jean-Pierre
Landau**

Former Deputy
Governor,
Banque de
France



**John
Lipsky**

Former Deputy
Managing
Director, IMF



**Nicky
Newton-King**

Chief Executive,
Johannesburg
Stock Exchange



**Bruno
Oberle**

State Secretary &
Director of Swiss
Federal Office for
the Environment



**Murilo
Portugal**

President,
Brazilian Bankers
Federation



**David
Pitt-Watson**

Co-Chair
UNEPFI



**Atiur
Rahman**

Governor,
Central Bank of
Bangladesh



**Neeraj
Sahaj**

Former
President, S&P
Rating Services



**Rick
Samans**

Managing
Director
WEF



**Andrew
Sheng**

Distinguished
Fellow,
Fung Global
Institute



**Anne
Stausboll**

CEO, CalPERS



**Lord Adair
Turner**

Former Chair,
Financial
Services
Authority, UK

FOCUS ON PRACTICE



A SYSTEMIC CHALLENGE

TOO MUCH OF THIS



NOT ENOUGH OF THIS



CRITICAL CHALLENGES

US\$16
trillion

Annual global investment
All needs to be green and resilient

US\$ 5-7
trillion

Annual investment needed for sustainable development goals e.g. in infrastructure, energy, agriculture

US \$ 7
trillion

Annual environmental externalities –need to be costed into decision making

US\$ 6
trillion

Reduction in fossil fuel and power investment need (2015-2030)

ALIGNING THE SYSTEM

FINANCIAL ASSETS & ACTORS



Banking
US\$135 tn



Bonds
US\$100 tn



Equities
US\$70 tn



Investors
US\$100 tn



Insurance
US\$29 tn

PRIORITIES FOR ALIGNMENT

*Real economy
regulation & pricing*

*Mobilising public
spending*

*Action within the
financial system?*

REASONS FOR ACTION IN THE FINANCIAL SYSTEM

Managing risk

Inadequate risk management in the financial system may exacerbate environmental & social externalities

Promoting innovation

Upgrading the standards and regulations required to catalyze investment, for example, in bond markets

Strengthening resilience

Environmental factors can pose risks to assets and system stability

Ensuring policy coherence

Ensuring coherence between financial regulation and wider goals, such as long-term investment, access to finance, environmental security.

FINDINGS: 'a quiet revolution' 100+ measures globally

Diverse starting points



Financial inclusion, greening industry



Air pollution



Infrastructure investment



Post-crisis rebuilding of trust in finance



Climate change

Measures in practice



Integration in prudential banking regulation



New investor reporting requirements on climate



Coordinated roadmap led by regulator



Financial sector compact



Incentives for clean energy bonds

Levers for action



Enhancing market practice



Harnessing the public balance sheet



Directing finance through policy



Transforming culture



Upgrading governance

BRAZIL: A first mover in sustainability



Enhancing the market: BM&F Bovespa stock exchange launch ISR Index in 2005

Managing risks: In 2014, BACEN introduced new requirements for banks to manage socio-environmental factors as part of core risk system to improve governance and strengthen soundness.

Performance measurement: Brazilian Bankers Association (FEBRABAN) starting to track green lending flows.



“Sustainability is a positive asset for financial and monetary stability”
Aloisio Tupinamba, Chief of Staff, Financial Regulation, Central Bank of Brazil

CHINA: Greening the financial system



Green credit criteria taking shape

Updated: 2012-05-16 17:00

By Zheng Yanpeng (chinadaily.com.cn)

CHINADAILY.com.cn

Green investment needs: US\$400bn p.a to finance green investment; only 15% from public sources.

Green financial system: The People's Bank of China co-authored a set of proposals with the Inquiry on closing the gap: green bonds, green ratings, lender liability, environmental insurance, stock market disclosure

International cooperation: Exploring areas of cooperation in green finance ahead of G20 in 2016, with Bank of England and Inquiry

“Greening a country’s financial system is not an “additional” performance requirement but concerns the efficiency and effectiveness of the whole system”

Development Research Council of the State Council, China

UK: Climate, stability and green finance



theguardian

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

Fiduciary Duty: Law Commission review clarified that material sustainability factors part of prudent investing.

Prudential Regulation: The PRA is examining the impact of climate on safety and soundness of insurance companies: physical and transition risks.

Green Finance: The Green Investment Bank instrumental in creating a new class of 'renewable investment trusts'

"The central bank time horizon is relatively short. But the real challenges to prosperity and economic resilience from climate change will manifest well beyond this. We face a 'tragedy of horizons'." **Mark Carney, Governor, Bank of England**

FRAMEWORK FOR ACTION: *Tools, policies and governance*

Tools



Enhancing market practice: Disclosure, responsibilities, product criteria



Harnessing public balance sheet: Fiscal incentives, public institutions & central banks



Directing finance through policy: Priority sectors, regulatory calibration, liability frameworks



Transforming culture
Capacity building, financial behaviour, market structure

Policy packages



Banking: Extend risk based governance, improve access, enhance culture



Bonds: scale up green bonds, extend credit analysis



Equities: market disclosure, sell-side research



Investment: Pensions governance, transparency and incentives



Insurance: Access, prudential governance & investment role

Governance



Principles for a sustainable financial system



Compacts and pathways



Policy and legal frameworks



Regulatory mandates



Performance measurement



SCALING UP DEBT CAPITAL MARKETS

1. Market Integrity: common definitions, standards, verification, certification	6. Improving returns: through tax credits and incentives
2. Pipeline Development: enabling issuers and investors to plan ahead and build expertise	7. Purchase by public funds: through mandates for sovereign wealth funds and pension funds
3. Strategic Issuance: from public development banks and municipalities	8. Central bank purchases: for reserve management & asset purchase policies
4. Market Development: standard contracts, aggregation, securitisation,	9. Regulatory adjustment: preferential weighting for green bonds
5. Improving risk return: credit enhancement: partial guarantees, subordinated debt	10. International cooperation: underpinning market liquidity through mutual recognition



MOBILISING INSTITUTIONAL INVESTORS

1. System Design: Integrate adequacy, affordability & sustainability	6. Standards: provide guidance on OECD and other guidelines
2. Fiduciary Duty: Clarify that fiduciaries must take account of sustainability	7. Incentives: encourage alignment of fees along the investment chain
3. Governance: Include sustainability in skills & capabilities (fit & proper) tests	8. Fiscal: review to encourage long-term sustainable value creation
4. Prudential: Calibrate capital requirements & extend horizons	9. Disclosure: on stewardship and sustainability performance
5. Structure: Consider whether consolidation needed for delivery	10. International: international code on investor duties and sustainability

FRANCE: *Improving financial transparency*

the French Minister of Finance and Public Accounts



How to shift the trillions?

MAY 22ND, 2015 - PARIS, FRANCE
UNESCO HEADQUARTERS

ENERGY TRANSITION LAW



Corporations: disclose exposure to financial risks linked to climate change, contribution to climate change and strategic actions



Banks: incorporate climate factors into stress tests - end of 2016



Investors: disclose how they manage sustainability factors, carbon footprint and contribution to the energy transition

“It is essential that the financial system as a whole takes climate risk into account, anticipates ambitious targets and integrates this into investment decisions.”

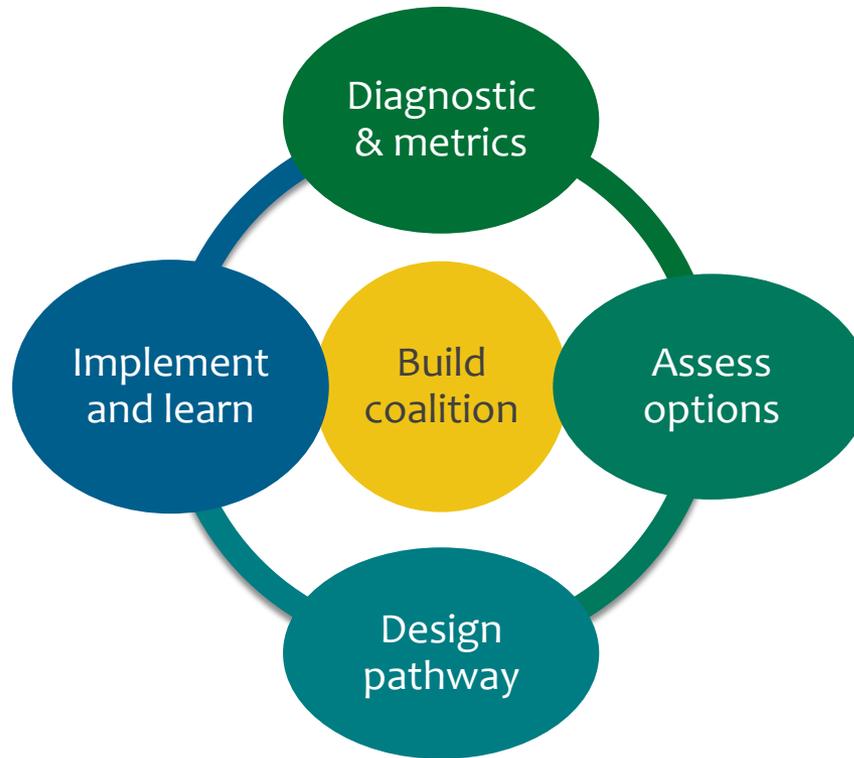
Laurent Fabius, Foreign Minister, France

NEXT STEPS: Acting nationally and internationally

SYSTEM LEVEL COLLABORATION

-  Principles
-  Disclosure convergence
-  Sustainability stress test
-  Fiscal measures optimisation
-  Performance framework

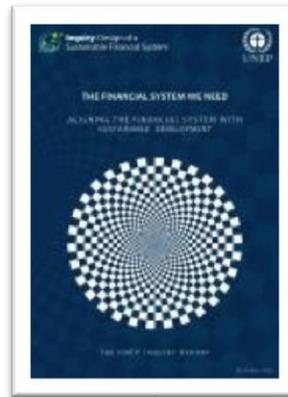
NATIONAL COMPACTS & PLANS



SECTOR LEVEL COLLABORATION

-  Global banking standards
-  Code on investor duties
-  Coalition for greening debt & capital markets
-  Guidance for insurance regulators

INTERNATIONAL COLLABORATIVE RESEARCH ALLIANCE



Global Report
(English + 6 languages)

Policy Summary

Country research



Thematic reports



Working papers



INQUIRY: *conclusions*



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For more information



www.unep.org/inquiry/



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