Inquiry: Design of a Sustainable Financial System
Vicious circle or virtuous opportunity?

**Green and Inclusive Economy**

- Heading in the wrong direction
- 4°
  - 3-4 degrees warming by 2050

**Financial Reform**

- Ignores sustainability
- USD 674 billion and 27 trillion
  - Annual investment in fossil fuels and value at risk by stranding assets

**Green Finance**

- Too little focus on rules of the game
- USD 693 trillion
  - Size of OTC derivatives market in 2013 – good for real economy?

**THE REAL ECONOMY**

- USD 7.3 trillion per year environmental externality

**THE ENVIRONMENT**

- 37 Percent
  - Increase in carbon intensities of New York stock exchanges in last two years

**Clean USD 1 trillion**

- Annual shortfall in incremental financing of green infrastructure

- USD40-90 billion
  - Annual shortfall in clean energy R&D
Incremental financing solution will not work.

“The clean trillion” – annual

Underlying annual infrastructure investment need

Cost of environmental capital destruction and negative environmental externalities

$0.7\text{ trillion}$

$5\text{ trillion}$

$7.3\text{ trillion}$

"Uncertain prospects for growth and jobs... global warming... gap between the haves and have- Although distinct, these different threats feed off each other in an intricate interplay. We cannot address each in isolation."

Christine Lagarde, Managing Director, IMF
Why intervene in the financial system

“Everyone is working off a model. The models don’t incorporate environmental change factors, but just extrapolates out from the past.”

“None of the reforms such as Basel III have considered the nature of environmental risk for the sustainability of the system. Instead it prices out investment for long-term infrastructure.”

“As a central bank we are working to engrain socially responsible investing into the financing structure itself. It is explicit...Our mandate is to support the growth objectives of the government. The governments goals are pro-environment and inclusive.”

“What is needed is not just money. (needed are)...fundamental shifts in the metrics, institutions, and policies that govern how financiers and investors evaluate economic activities are required.”

Mark Burrows, Managing Director, Credit Suisse, Asia Pacific
Emerging market innovation

Deutsche Bank closes first residential energy efficiency retrofit bond securitization

“... we must question the prevailing logic of ... a financial system that essentially rewards unemployment and consolidates a notion of jobless growth... that rewards rampant over-consumption rather than grappling with the more complex challenge of sustainable development.”

Kumi Naidoo, Executive Director, Greenpeace Int.
Emerging policy innovation

**USA (2009)**
- SEC Disclosure requirements

**USA (2009)**
- NAIC climate change disclosure

**Colombia (2012)**
- Green Protocol

**Peru**
- Developing guidelines

**Brazil (2014)**
- Green Protocol for Private Banks

**South Africa (2011)**
- Regulation 28 of the Pension Funds Act

**UK (1999)**
- Pensions Act - reporting

**EU (2013)**
- Directive on Disclosure of non-financial information

**France (2012)**
- Grenelle Law - Reporting

**China (2012)**
- Green credit guidelines

**Indonesia (2009)**
- Green Protocol for Private Banks

**Vietnam**
- Developing guidelines

**Peru**
- Developing guidelines

**Bangladesh (2011)**
- ERM Guidelines

**Mongolia**
- Developing guidelines

**Lebanon (2011)**
- Reduced reserve requirements for energy efficiency
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”

Jan 2014 — Dec 2015

1. Establish analytical frameworks
2. Country engagement: mapping practice
3. Thematic analysis
4. Options for design
5. Enable learning across the system, catalyse leadership and action

“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
High-level Advisory Council

Kuandyk Bishimbayev
Chairman, Baiterek Development Bank

Naina Kidwai
Group General Manager & Country Head, HSBC India

Jean-Pierre Landau
Former Deputy Governor, Banque de France

Maria Kiwanuka
Minister of Finance, Government of Uganda

Rachel Kyte
Group Vice President, World Bank

John Lipsky
Former Deputy Managing Director, IMF

Murilo Portugal
President, Brazilian Bankers Federation

David Pitt-Watson
Co-Chair UNEPFI

Atiur Rahman
Governor, Central Bank of Bangladesh

Neeraj Sahaj
President, S&P Rating Services

Mallam Sanusi
Former governor, Central Bank of Nigeria

Rick Samans
Managing Director WEF

Andrew Sheng
President, Fung Global Institute

Anne Stausboll
CEO Calpers

Lord Adair Turner
Former Chair, Financial Services Authority, UK
Program: what we plan to do

Framework
- Scenarios
- Principles
- Assessment Method

Country engagement
- US, US, Europe
- China
- Brazil, India, South Africa
- Bangladesh, Indonesia
- Uganda

Cross-cutting knowledge/design
- Information/disclosure
- Incentives/fiscal
- Private standards/ratings
- Systemic risk
- Governance/mandates

Building from ground-level experience, building principles and method, and collaborating in cross cutting design options
Success: what it might look like

What Can Be Achieved?

- Validating emergent practice
- Building analytic method
- Overcoming principled objection
- Providing specific policy options
- Nurturing leadership and action

Shifting the narrative, supporting leadership, validating practice, offering policy options
Challenging questions

- **Scenarios**: which financial system?
- **Leadership**: countries and practices?
- **Impact analysis**: method, expertise and data?
- **Innovation levels**: from accounting to mandates?
- **Alignment**: integrating into financial market development?
- **Partners**: engagement, analysis, and execution?