Towards a sustainable financial system

Panel discussion – The growing international momentum, 09:45 – 10:45

Moderator: Maurizio Zollo, Professor in Strategy and Sustainability, Bocconi University

GOOD MORNING

'Growing international momentum', the title of this session, is a nice understatement I feel to describe the depth and rapidity of the financial sector's response to climate change. We are seeing a surge of activity! And this seminar is part of that.

From creation of an FSB Task Force on climate-related disclosure to the emergence of a USD 150 billion green bond market in less than a decade, green finance is now at the very top of our industry's agenda.

And not just in London – in Paris, Stockholm, Beijing and beyond, pioneering institutions (like Amundi and SEB) have sought to marry sustainability, profit and prudence, and are reshaping the entire financial sector in the process.

What is the GFI and why was it set up?

Ensuring that these centres and their practitioners coordinate is now the next step – and this is precisely why the City of London launched its Green Finance Initiative earlier this year. As the G20 made clear in their landmark statement last week, green finance must be scaled if it is to be successful, with innovative partnerships, knowledge sharing and cross-border capital flows the vehicles of choice.

London's initiative, which I am delighted to chair, is therefore pooling international expertise in order to:

- promote the sector's development;
- strengthen market infrastructure; and
- advocate specific policy and regulatory changes that might better channel funding toward green projects.

Our members include experts and practitioners in London, New York, Paris and Stockholm, and we are determined to enhance the sector's development globally.

And recently we have seen, for example, for the world's first renminbi- and rupee-denominated green bond issuances; London is home to nearly all the world's organisations dedicated to carbon clarity and disclosure; the UK founded the first Green Investment Bank; and established world leadership on non-financial reporting requirements – so much so that they were replicated in Europe as the Non-Financial Reporting Directive.

I should emphasise that, post the Brexit referendum, the UK's commitment to a low-carbon transition and to the development of deep and liquid green capital markets remains undimmed.

We in the City look forward to continued political, regulatory and industry support for what is fast becoming a strategic sector, and will continue to engage closely with our partners on the continent and further afield.

Green products also constitute one of the world's fastest growing asset classes and represent the cutting-edge of twenty-first century capital markets – leaving the EU divests us of neither our priorities nor our business sense, and we will continue to promote and strengthen the sector's further development.

What is green finance?

Now, as many of you may be aware, the concept behind green finance is simple – green finance funds any means of reducing carbon emissions or raising resource efficiency, and its adherents range from world-renowned corporates to cities, states and international development banks.

Ladies & Gentlemen, if it is possible to describe a financial instrument as being something of abstract value, the Green Bond is a thing of beauty! It represents finance in one of its purest forms and at the same time does real good for the world. Its inspiring – at least for a banker. There is a triangle of issuer, investor and project accreditor – often a University – thereby bringing intellectual integrity to the very heart of finance, finance which is intended specifically to bring about a better world.

Investor demand for these bonds exceeds supply, and those who once passively divested of high-carbon assets are increasingly seeking to obtain low-carbon products; products which allow investors to explore climate solutions without needing to adopt new financial frameworks, and which observer basic green principles of transparency, accreditation and annual impact reporting.

The projects that can be labelled green will and do differ from country-to-country – renewable power for some, nuclear energy and even clean coal for others – but as long as financial principles of accreditation and transparency are embedded, investors can choose for themselves the assets that best suit their green mandate and the market will price instruments accordingly.

These instruments benefit not only the environment but issuers too, typically broadening their investor base, maximising order books and tightening prices.

Such was the demand for TfL's inaugural green bond, for example, that the agency secured its second-lowest cost of debt capital yet and tapped an entirely new cash pool – fully 69% of the bond's investors were green-only funds, many of them first-time investors not just in TfL but in sterling markets entirely.

Issuers like Ile de France (the City of Paris) enjoyed a similar experience, and green bonds are now a well-established tool for raising carbon-conscious capital raising.

The GFI is concerned with the interests of the whole financial industry, whether it is based in London or not, and believes the green finance sector will be best served by a collaborative approach rather than a competitive one. We are determined to encourage development of the green finance sector on a truly global scale - which is precisely why I am here today.

By raising capital for green projects, investing savings in low-carbon infrastructure and facilitating implementation of COP21's Paris Agreement the global financial sector can drive the transition toward a carbon-neutral economy.

In recent years the industry has perhaps been too cautious to admit it, but global capital markets have the capacity to enact fundamental economic change – and that is precisely what the green finance sector might do.