

# The Global Sustainable Finance Landscape: Trends in ESG Investing and Implications for Small Open Economies

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Advancing Sustainability: Preparing the Economy for the Climate Challenge

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Centre for  
Sustainable Finance

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# The world is facing major challenges

- Climate crisis
- Ecological crisis
- Social inequality
  
- COVID-19 has demonstrated the vulnerability and lack of resilience of societies and economies.
- To address these challenges, we need finance to be part of the solution, not part of the problem.

# Sustainability has become a mega-topic in finance

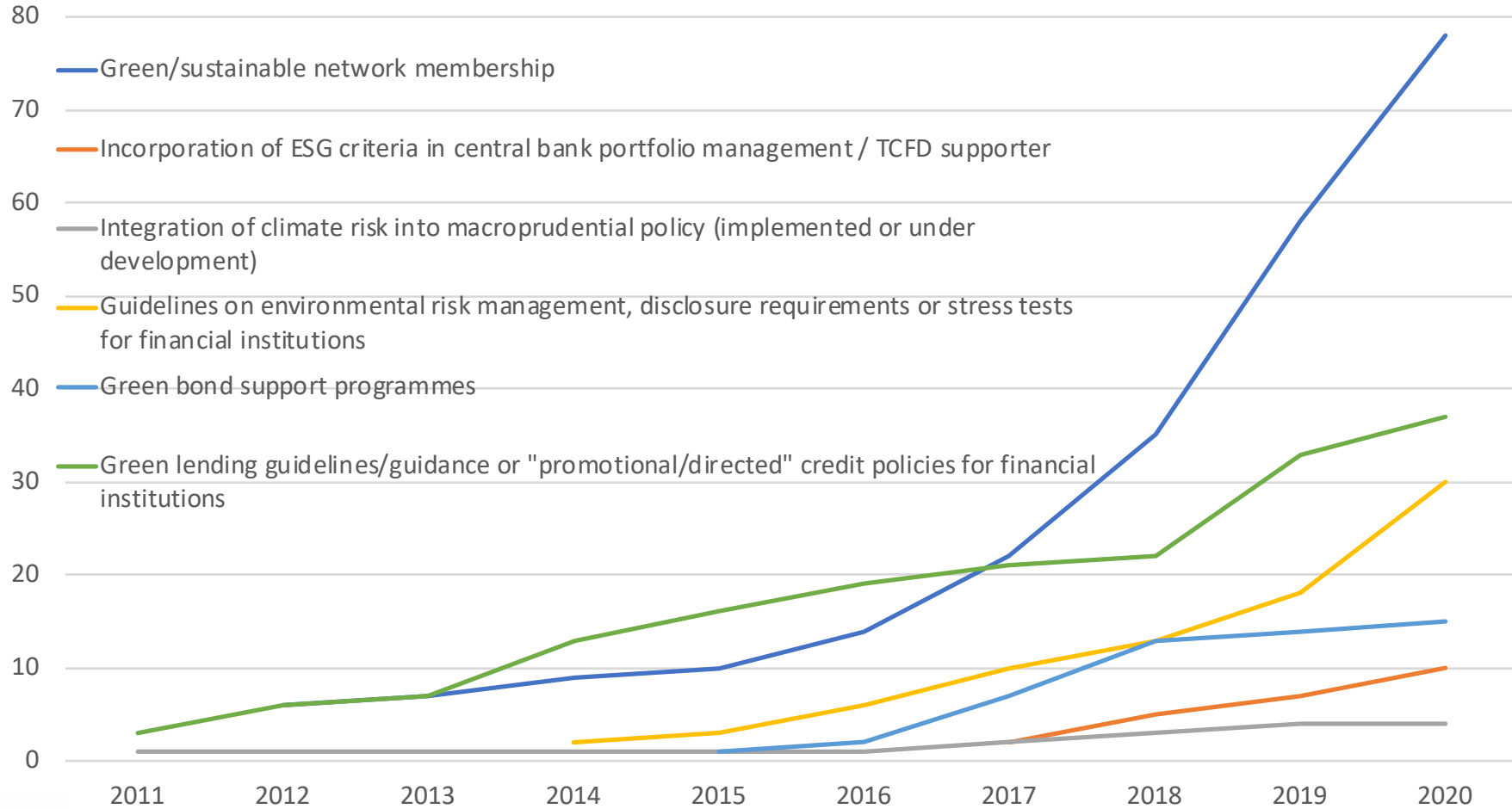
- Markets are looking for ESG investment opportunities.
- Ratings agencies and index companies are integrating climate risks and ESG metrics.
- Monetary and financial authorities are increasingly introducing sustainable finance policies and frameworks.
- This is a global trend that will reshape the global financing landscape.
- Global de facto standards are emerging.
  - Standards are being set in major markets.
- Individual firms and economies at large need to adapt not only to environmental change but also to changing market expectations.

# A new governance framework for sustainable finance is emerging

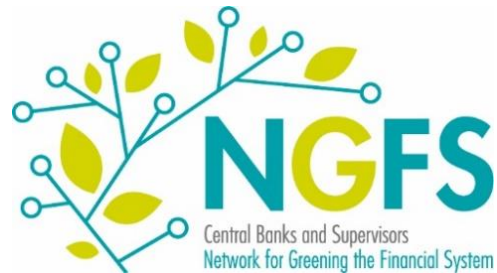
# Monetary and financial authorities are increasingly introducing sustainable finance policies and frameworks

- Disclosure.
- Taxonomies.
- Stress tests.
- Prudential frameworks.

# Number of central banks that have adopted “green” activities (by type)



Source: Dikau and Volz (2021).



Glasgow, November 3<sup>rd</sup> 2021

## NGFS Glasgow Declaration Committed to Action

**From 8 founding members in 2017, we have quickly expanded to now include 100 central banks and supervisors and 16 observers, who together form the Network for Greening the Financial System (NGFS).** We are a global and inclusive network, consisting of members from developed, emerging and developing economies.

**On the occasion of the 2021 United Nations Climate Change Conference (COP26), we reiterate our willingness to contribute to the global response required to meet the objectives of the Paris Agreement, and, to that end, we will expand and strengthen our collective efforts towards greening the financial system.**

**Following its *Call for Action* report published in April 2019, the NGFS has developed a broad set of analyses and practical tools to share knowledge and best practices,** notably in the fields of prudential supervision, climate scenario analysis, responsible investment, the inclusion of climate-related considerations into monetary policy frameworks, data gaps, and building awareness and intellectual capacity.

**Looking ahead, and in light of the urgency and seriousness of climate change and environmental issues, we will expand and strengthen our collective efforts to improve the resilience of the financial system to climate-related and environmental risks, and encourage the scaling up of the financing flows needed to support the transition towards a sustainable economy.**

# New norms around management and disclosure of climate risks are emerging

## Principles for Responsible Banking



## Task Force for Climate Related Financial Disclosure



## Principles for Sustainable Insurance



## Principles for Responsible Investment





03 November 2021

# IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements

As world leaders meet in Glasgow for COP26, the UN global summit to address the critical and urgent issue of climate change, the IFRS Foundation Trustees (Trustees) announce three significant developments to provide the global financial markets with high-quality disclosures on climate and other sustainability issues:

- The formation of a new **International Sustainability Standards Board (ISSB)** to develop—in the public interest—a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs;
- A commitment by leading investor-focused sustainability disclosure organisations to consolidate into the new board. The IFRS Foundation will complete consolidation of the **Climate Disclosure Standards Board** (CDSB—an initiative of CDP) and the **Value Reporting Foundation** (VRF—which houses the Integrated Reporting Framework and the SASB Standards) by June 2022;

## Related information

[Erkki Liikanen's COP26 speech](#)

[Feedback Statement on proposed amendments to the IFRS Foundation's Constitution](#)

[IFRS Foundation Constitution](#)

[ISSB: Frequently Asked Questions](#)

[International Sustainability Standards Board](#)

# Basel Committee supports the establishment of the International Sustainability Standards Board



Press release | 03 November 2021

- Basel Committee welcomes the IFRS Foundation's establishment of the International Sustainability Standards Board.
- Supports the development of a consistent approach across sectors and minimising regulatory fragmentation.
- Will work on the Pillar 3 framework to promote a common disclosure baseline for climate-related financial risks across internationally active banks.

The Basel Committee on Banking Supervision welcomes today's announcement by the International Financial Reporting Standards (IFRS) Foundation that it is establishing the International Sustainability Standards Board (ISSB) to develop global standards to improve the consistency, comparability and reliability of sustainability reporting.



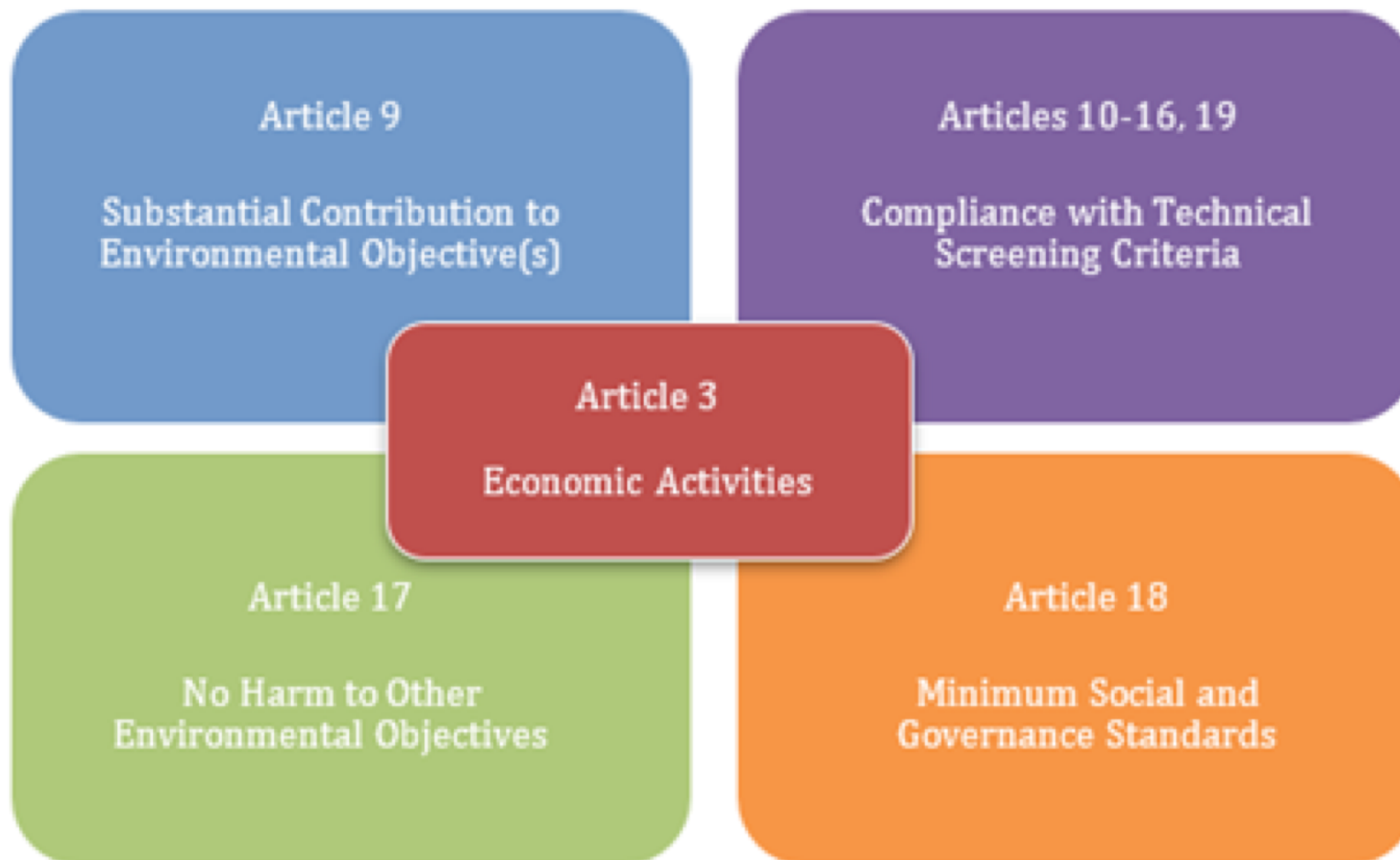
# The EU sustainable finance regulation

- The Non-Financial Reporting Directive (NFRD)
  - Requires large EU “public interest” corporates (including many financial services firms) to publish data on the impact their activities have on ESG factors.
- The Taxonomy Regulation
  - Introduces a sustainability classification system through which investment firms must classify investments based on NFRD data (and other datasets).
- The Sustainable Finance Disclosure Regulation
  - Requires investment firms to disclose:
    - The environmental sustainability of an investment and the provenance of any ESG claims made;
    - The risks investments present to ESG factors;
    - The risks ESG factors present to investments.

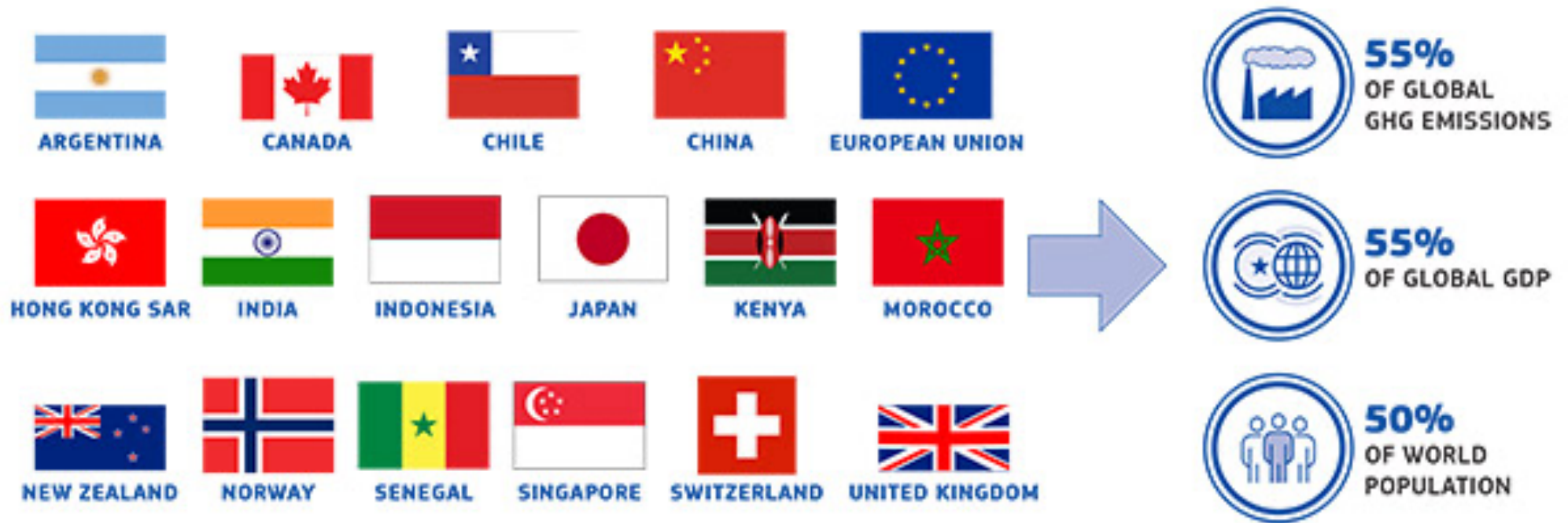
# The EU Taxonomy encompasses a set of definitions for sustainable activities centered around six environmental objectives



# Criteria for “Environmental Sustainability”

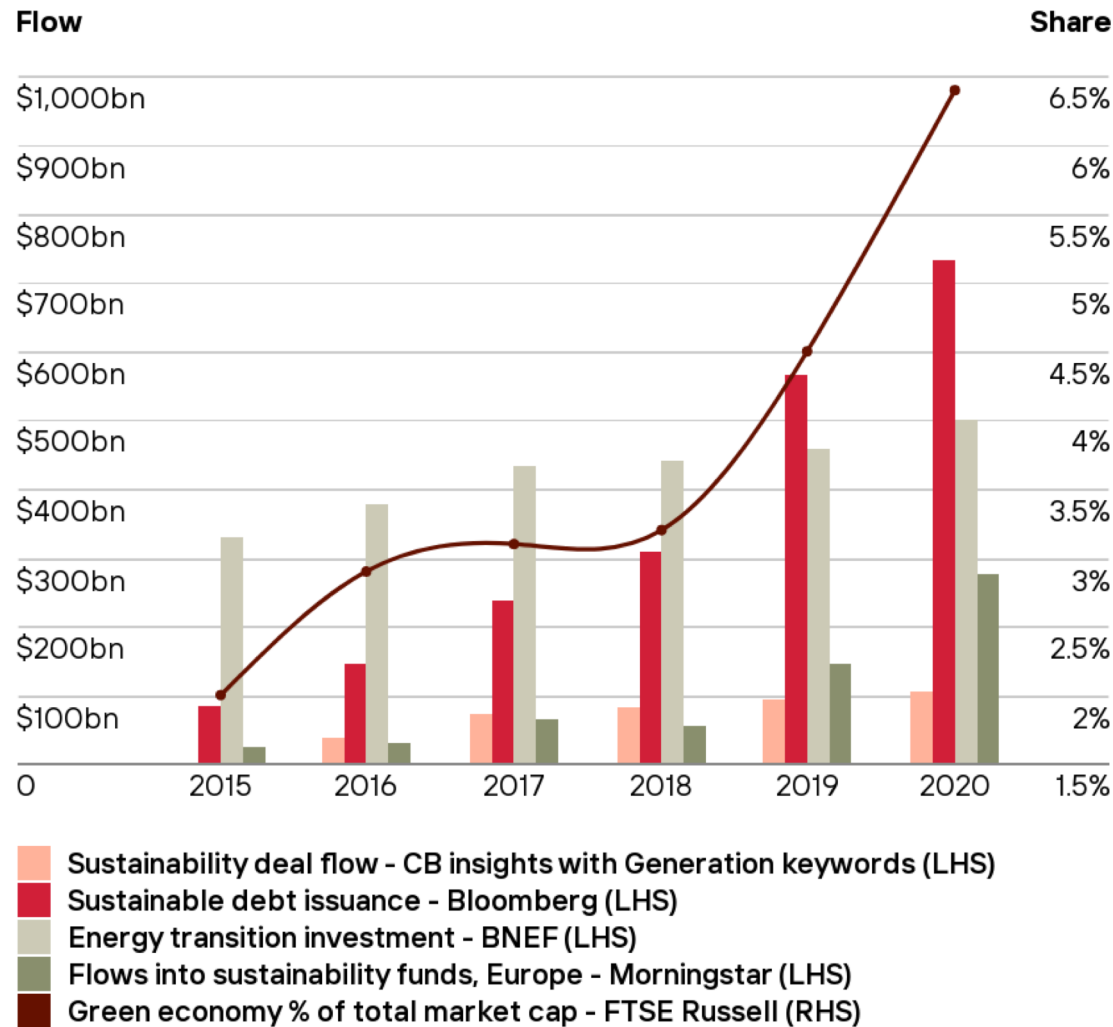


# International Platform on Sustainable Finance



# Markets are looking for ESG investment opportunities

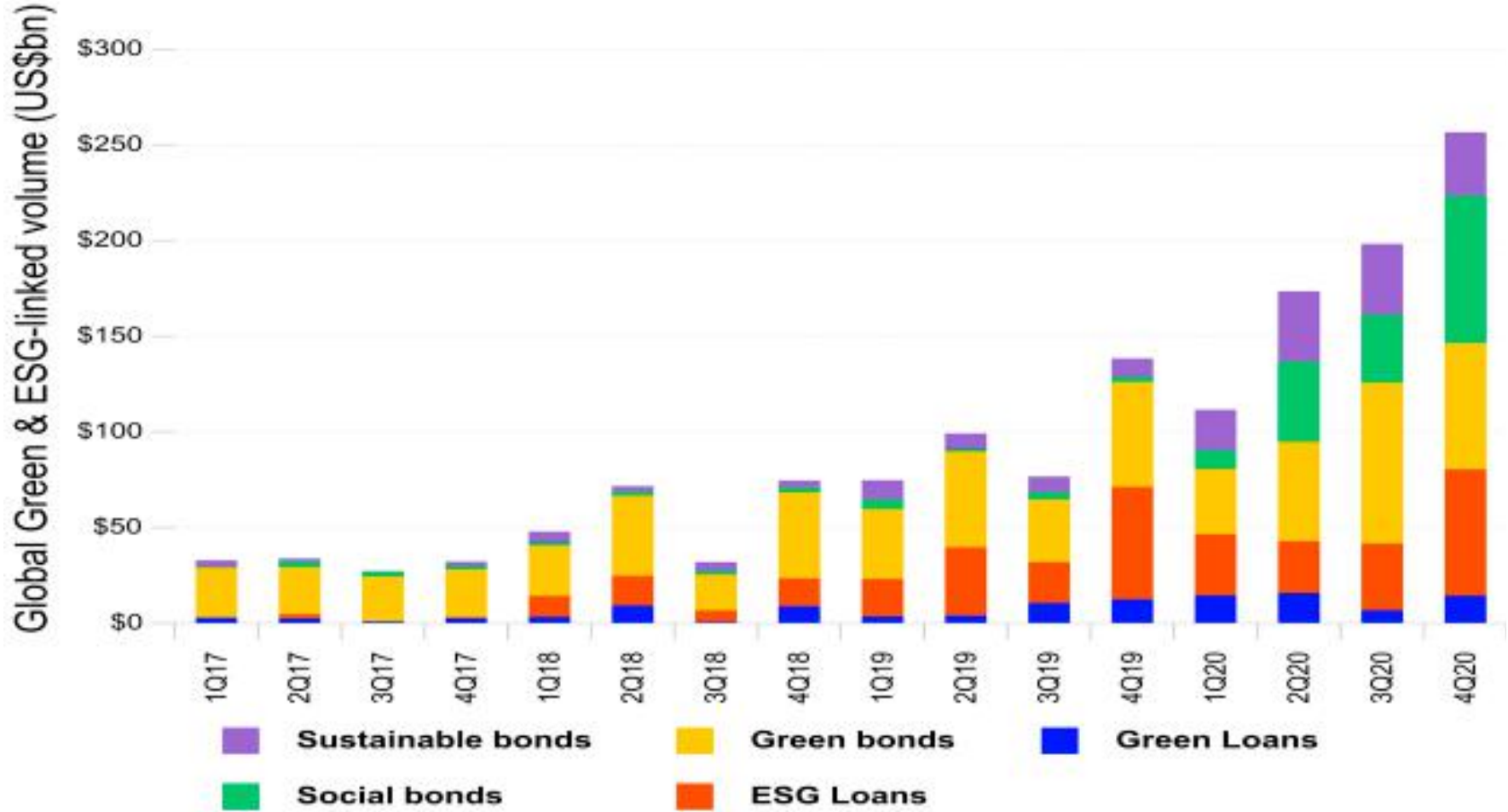
# Trends in sustainability-related finance, 2015-2020



Source: Generation CB Insights, Bloomberg, BNEF, Reuters, FTSE Russell.



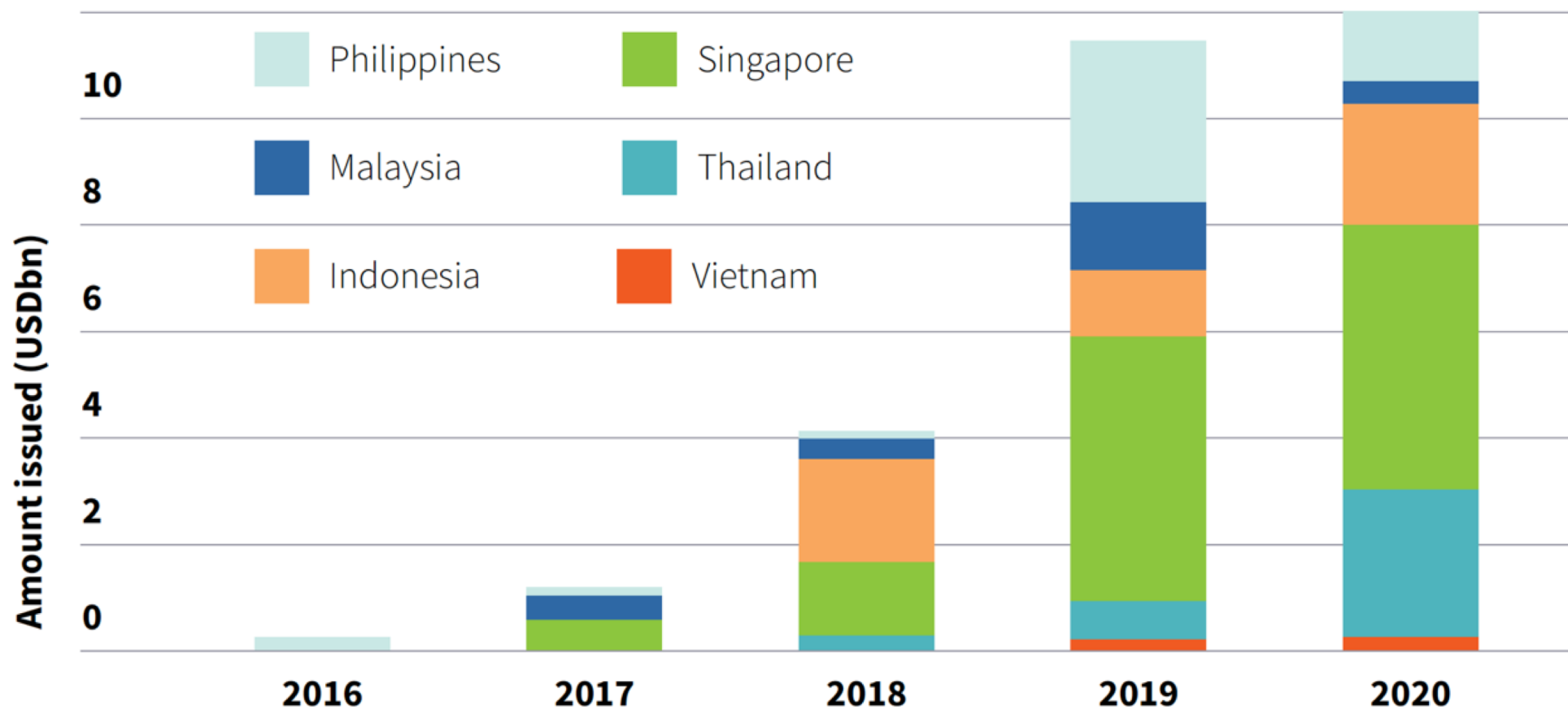
# Global ESG loan and bond issuance



Source: Refinitiv.

# ASEAN cumulative green, social and sustainability bond/loan issuance by country

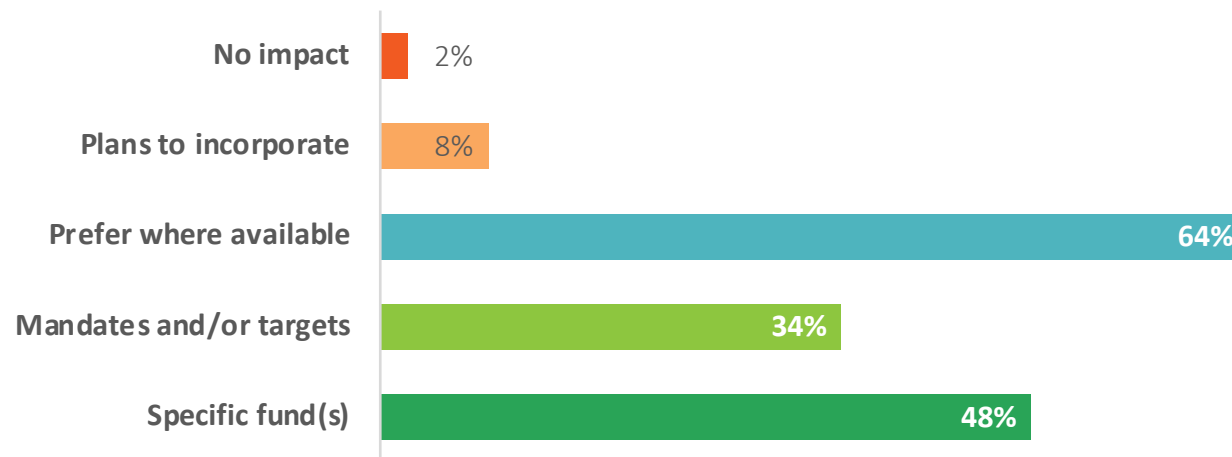
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Source: CBI (2021).

# Investor survey: There's a lack of green bond supply

- 48 investors with \$13.7tn AUM
- Strong investor appetite for green bonds: Respondents consistently expressed demand for more bonds from more issuers in more sectors
- 64% said they prefer green bonds where available and competitively priced (over vanilla equivalents), and almost half have specific fund(s)





21 APR 2021 | PRESS RELEASE | GREEN ECONOMY

# Mark Carney, UN Race to Zero campaign, COP26 Presidency launch Net Zero Financial Alliance

Source: <https://www.unep.org/news-and-stories/press-release/mark-carney-un-race-zero-campaign-cop26-presidency-launch-net-zero>

# Amount of finance committed to achieving 1.5°C now at scale needed to deliver the transition

November 3, 2021

*Capital committed to net zero now at over \$130 trillion, up from \$5 trillion when the UK and Italy assumed COP26 Presidency*

**Today, through the Glasgow Financial Alliance for Net Zero (GFANZ), over \$130 trillion of private capital is committed to transforming the economy for net zero.<sup>1</sup> These commitments, from over 450 firms across 45 countries, can deliver the estimated \$100 trillion of finance needed for net zero over the next three decades.**

Firms and economies need to adapt not only to environmental change but also to changing market expectations

- Global de facto standards are emerging.
  - Standards are being set in major markets.
  - The EU sustainable finance regulation will have massive implications for Asia Pacific Region as well.
- Ratings agencies are giving ever more attention to ESG risks.
  - Both at corporate and sovereign level.
- Index companies are integrating climate risks.
- ESG funds become ever more important.
- Individual firms and economies at large need to adapt not only to environmental change but also to changing market expectations.

“Changes in climate policies, new technologies and growing physical risks will prompt reassessments of the values of virtually every financial asset. Firms that align their business models to the transition to a net zero world will be rewarded handsomely. Those that fail to adapt will cease to exist.”

– Mark Carney, UN Special Envoy on Climate Action and Finance  
Governor of the Bank of England, 2013-2020  
Chair of the Financial Stability Board 2011-2018



# Terima kasih!

Don't hesitate to reach out!

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