Climate Safe
Lending Network

Spotlight on Central Banks and Climate Safety

SEEDS OF CHANGE
CLIMATE FINANCE
POLICY BRIEF

STRATEGIES, POLICY OPTIONS, AND SCALABLE INTERVENTIONS FOR ADVANCING CLIMATE FINANCE

CLIMATE SAFE LENDING NETWORK OUTCOME REPORT OF THE FINANCE INNOVATION ROUNDTABLE 2020 HOSTED BY THE FEDERAL RESERVE BANK OF SAN FRANCISCO

MARCH 2021

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Climate Safe Lending Network
University of New Hampshire

Seeds of Change

We're pleased to share our recently published outcome report, the *Seeds of Change Climate Finance Policy Brief*. This report describes 'seeds' of change -- strategies, policy options, and scalable interventions for advancing climate finance -- that arose from discussions about policy and pathways to climate safe lending during the **2020 Financial Innovations Roundtable**. This event, which took place in November 2020, was co-hosted with the Federal Reserve Bank of San Francisco and Carsey School of Public Policy at the University of New Hampshire.

Find out which seed ideas will enable financial regulators and policy makers to move the needle further in addressing systemic climate risk and increasing investment in positive innovations.

Read the Report

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Financial Stability in a Planetary Emergency Event on April 15th

This year's United Nations Climate Change Conference, COP26, will be the largest and most important ever staged. The topic of financial sector reform has been highlighted as a pivotal issue in helping the global economy transition to climate safety and to avoid the catastrophic impacts of runaway climate change. But are we really moving the needle sufficiently enough to ensure planetary stability underpins the financial sector?

Join us on April 15th as we explore the role of financial regulation and policy in the global economic transition to climate and safety. This online event will feature:

- **A reveal of the top-ranked policy proposals for addressing climate change in influence and feasibility** as part of a presentation of our groundbreaking global financial policy report, *Financial Stability in a Planetary Emergency*.
- **An engaging dialogue with notable finance leaders** who will share their perspectives and debate the best ideas for regulating finance in which planetary stability underpins financial stability.
- **An interactive Q&A session** that involves asking and upvoting favorite questions.

Confirmed speakers for this event include:

- **Stuart P.M. Mackintosh,** Executive Director, Group of Thirty
- **Slavka Eley,** Head of Banking Markets, Innovation and Products, European Banking Authority
- **Nick Robins,** Professor-in-Practice, Grantham Research Institute on Climate Change and the Environment, The London School of Economics and Political Science
- **Sandrine Dixson-Decleve,** Co-President, Club of Rome
- **James Vaccaro,** Executive Director, Climate Safe Lending Network
- **Discussion Moderator: Claire Kramer Mills,** Assistant Vice President and Director of Community Development Analysis, Federal Reserve Bank of New York

Register to Attend

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Central Banks: Leaders or Laggards in the Climate Challenge?
Webinar 1.30 - 3pm (BST) Wednesday 31st March, featuring:

PositiveMoney

Prof Yao Wang
International Institute of Green Finance (IIGF)

Danae Kyriakopoulou
Official Monetary & Financial Institutions Forum

David Barmes
Positive Money

Lucie Pinson
Reclaim Finance

Katie Kedward
UCL Institute for Innovation and Public Purpose (IIPP)

Central Banks: Leaders or Laggards in the Climate Challenge?

Positive Money is hosting a live presentation of their latest report, *The Green Central Banking Scorecard* on March 31. This online event will feature a panel discussion with regulatory and academic experts to discuss key developments and next steps for central banks and financial supervisors on the road to this year's COP26 Climate Change Conference.

Join Positive Money in exploring the extent to which the world's most systemically important central banks and supervisors are stepping up to the challenge of acting on climate change.

Register to Attend

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LSE
Grantham Research Institute on Climate Change and the Environment
Centre for Sustainable Finance
SOAS University of London

Net-zero central banking:
A new phase in greening the financial system
Nick Robins, Simon Dikau and Ulrich Volz
Policy report
March 2021

Net-Zero Central Banking

On March 15th the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Public Policy **published** *Net-zero central banking: A new phase in greening the financial system*. This report examines the role that central banks and central supervisors could play in supporting the transition to net-zero greenhouse gas emissions.

Central to this report is a case for net-zero central banking. As guardians of the financial system, central bankers and supervisors have an important role in confronting the risks of climate change to support the transition to net-zero. The authors also provide recommendations for action across seven areas of central bank and supervisory practice, including prudential regulation, monetary policy and a just transition.

Read the Report

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Recommendations for the Prudential Regulation Committee

In a letter written to Andrew Bailey, Governor of the Bank of England, on March 3, 2021, Rishi Sunak, the Chancellor of the Exchequer, set out specific net-zero goals for financial regulators in the UK that stated:

"The government wishes to deliver a financial system which supports and enables a net-zero economy by mobilising private finance towards sustainable and resilient growth and is resiliant to the physical and transition risks that climate change presents. The PRC (Prudential Regulation Committee) should have regard to the government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions."

Read the Net-Zero Recommendations Here

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A Groundbreaking Monetary Policy Speech

There appears to be growing recognition that the systemic risks of climate change go beyond the individual financial risks of banks that regulators have been discussing in recent years. **Dr. Lael Brainard, Member of the Board of Governors of the Federal Reserve System, acknowledged in a** recent speech, "Financial Stability Implications of Climate Change," during the Ceres 2021 Conference:

"There are situations, however, where microprudential and macroprudential goals do not fully align so that it is important to take into account the implications both for individual firms' safety and soundness and also for the broader financial system. For example, the use of climate-related risk mitigants such as insurance or financial derivatives may shift risk away from a particular financial institution but may not reduce or eliminate risk from the system as a whole. In developing a framework to address climate-related financial risks, we need to be mindful of this cascade of effects and the implications across the Federal Reserve's range of responsibilities."

Dr. Brainard's remarks reinforce our point made in *Taking the Carbon Out of Credit* **which talked about the complementarity of Risk and Impact** (e.g., whilst it is necessary to keep banks safe from the planet, only focusing on that won't be sufficient to keep the planet safe from what the banks are funding). This idea reflects the precarious nature of regulating a banking sector whose creativity is not always well-directed. Sometimes it can be used to help finance new positive solutions; other times it can be used to parcel-out risks to others and to obscure the transactions from view via financial intermediaries. The result is that risks become socialised to the whole of society -- something that most societies can remember only too well.

These themes will be expanded upon in our forthcoming global financial policy report, *Financial Stability in a Planetary Emergency*.

Photo Credit: Board of the Governors of the Federal Reserve System

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How Do We Reconcile Net-Zero Commitments with Fossil Fuel Investment?

How can banks who have signed Paris-Aligned or NetZero climate commitments be increasing exposure to fossil fuel companies **(from the 2021 Banking on Climate Chaos Report)?** On face value this is terrible news and shows that even public commitments can't guarantee action. But the energy transition is complex, with some oil and gas companies trying to emulate the transformation of Danish Oil & Natural Gas (DONG) to Orsted -- the leading offshore wind company. Increasing lending to some of the big energy companies who still have fossil fuel assets might by helping with the transition to net-zero.

So maybe it's not all bad. Maybe bank finance is all going into transition? Unfortunately, that looks like wishful thinking given how most of those companies are performing according to the recently released *Net Zero Company Benchmark*. What's really needed is for banks to share data on what is really happening through the companies they are financing via robust carbon accounting commitments based on science and clearly communicated, detailed strategies. It's difficult to reconcile how those strategies could be consistent with net-zero or the Paris Agreement on climate action if banks are still backing companies that are still expanding fossil fuels and using finance for exploration.

If the primary tool being used, to date, has been engagement with companies then the question we might need to ask is: Will that work fast enough? With as little as 81 months of carbon emissions that we have left to maintain a 1.5 Celsius degree world, we can't keep financing the flow of finance to fossil fuels and deforestation, no matter how successful we are in influencing the emerging green economy.

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We're Hiring!

The Climate Safe Lending Network **is recruiting a Program Manager** to contribute to the development and growth of the Network and its ongoing climate finance initiatives. The Program Manager will work closely with the CSL Network core team on stakeholder engagement and recruitment; meeting design, planning & facilitation; communications; and fundraising.

CSL is seeking candidates with the following skills and qualities:

- **Demonstrated project management skills**, with experience managing several projects simultaneously
- **A passion for and strong knowledge of environmental sustainability and banking/finance**
- **Strong written communication, verbal communication, research and technology skills**
- **Bachelors degree required in sustainability, banking, finance or a related field**; MBA or Masters degree in a related field desired

If you’re interested in being considered for this position, please apply as soon as possible by sending your resume and cover letter to connect@climatesafelending.org. The interview process will begin by the end of March 2021. Learn more about this position and how to apply here: https://www.climatesafelending.org/join-our-team

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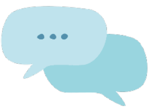

We look forward to staying in touch and bringing you the latest news and insights from the Climate Safe Lending Network and from the world of climate finance.

Contact us at **connect@climatesafelending.org** to share your comments.