

# Value(s) in the Net Zero Transition

VANTAGE

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MARK CARNEY  
JUNE 2022

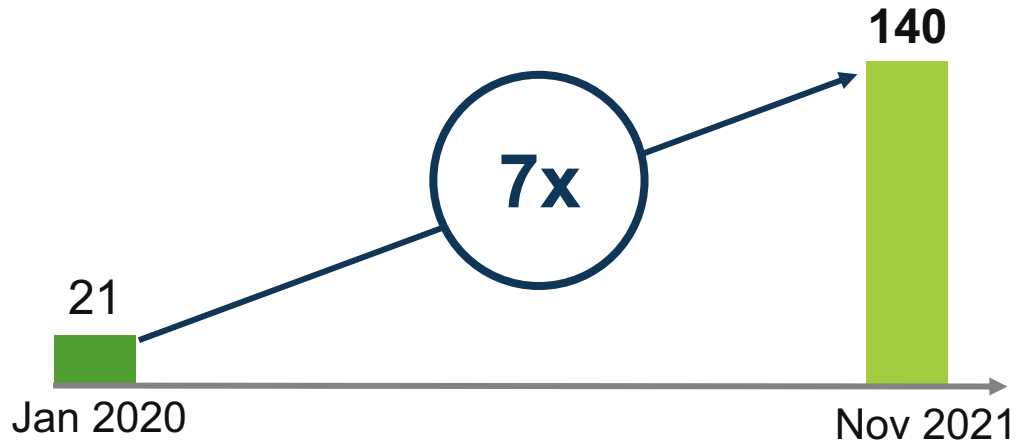
# The Net Zero Transition: a question of Value(s)

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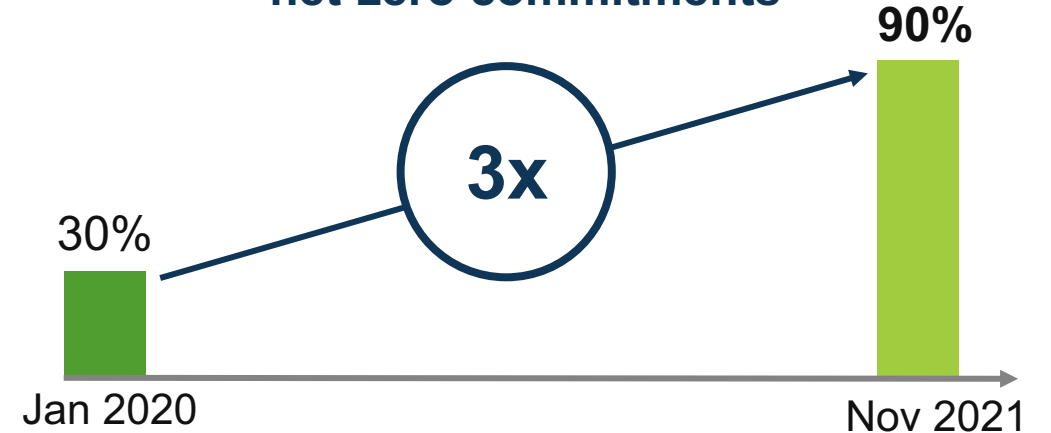
- ✓ Widespread view that price equals value (Amazon vs the **Amazon**)
- ✓ Tragedies of the Commons and the Horizon have been driving the climate crisis
- ✓ Emerging consensus on sustainability creates hierarchy for **values to drive value**
- ✓ Climate action requires clear objectives, credible climate policies and a **Net Zero financial system**
- ✓ Net zero transition plans mainstreaming driving demands for capital/solutions creating an **enormous commercial opportunity**

# Net-zero transition is accelerating

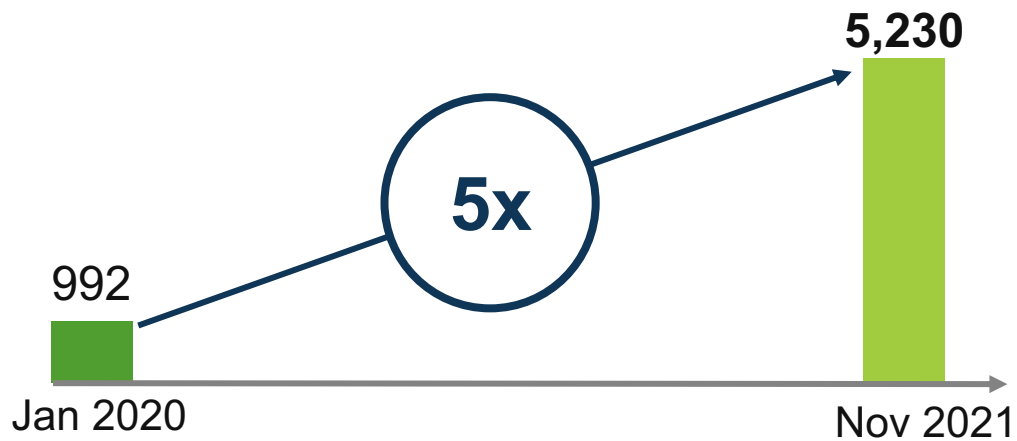
## Countries with net-zero commitments



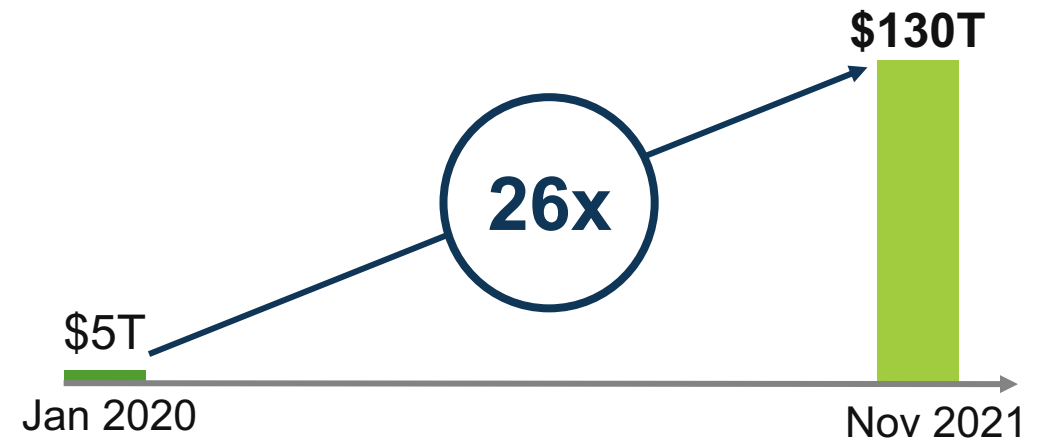
## Emissions covered by country net-zero commitments



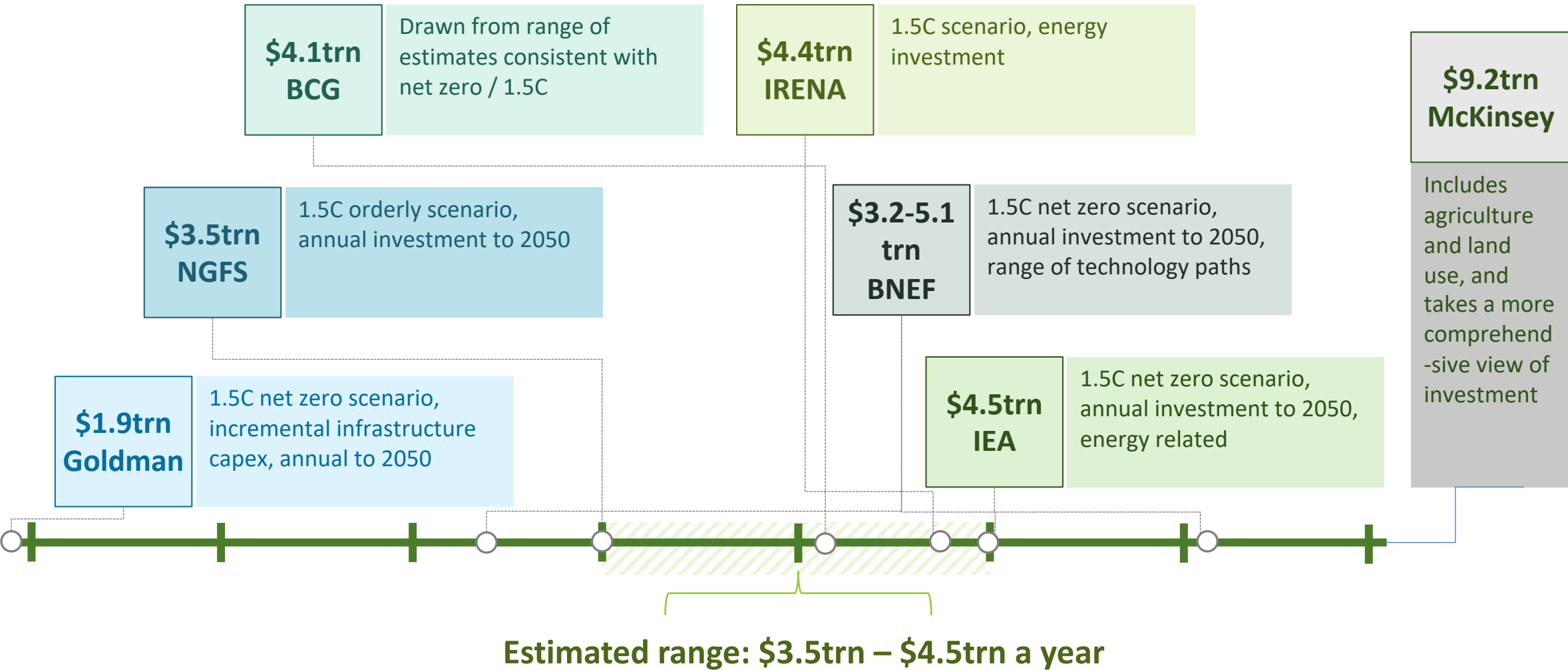
## Companies with net-zero commitments



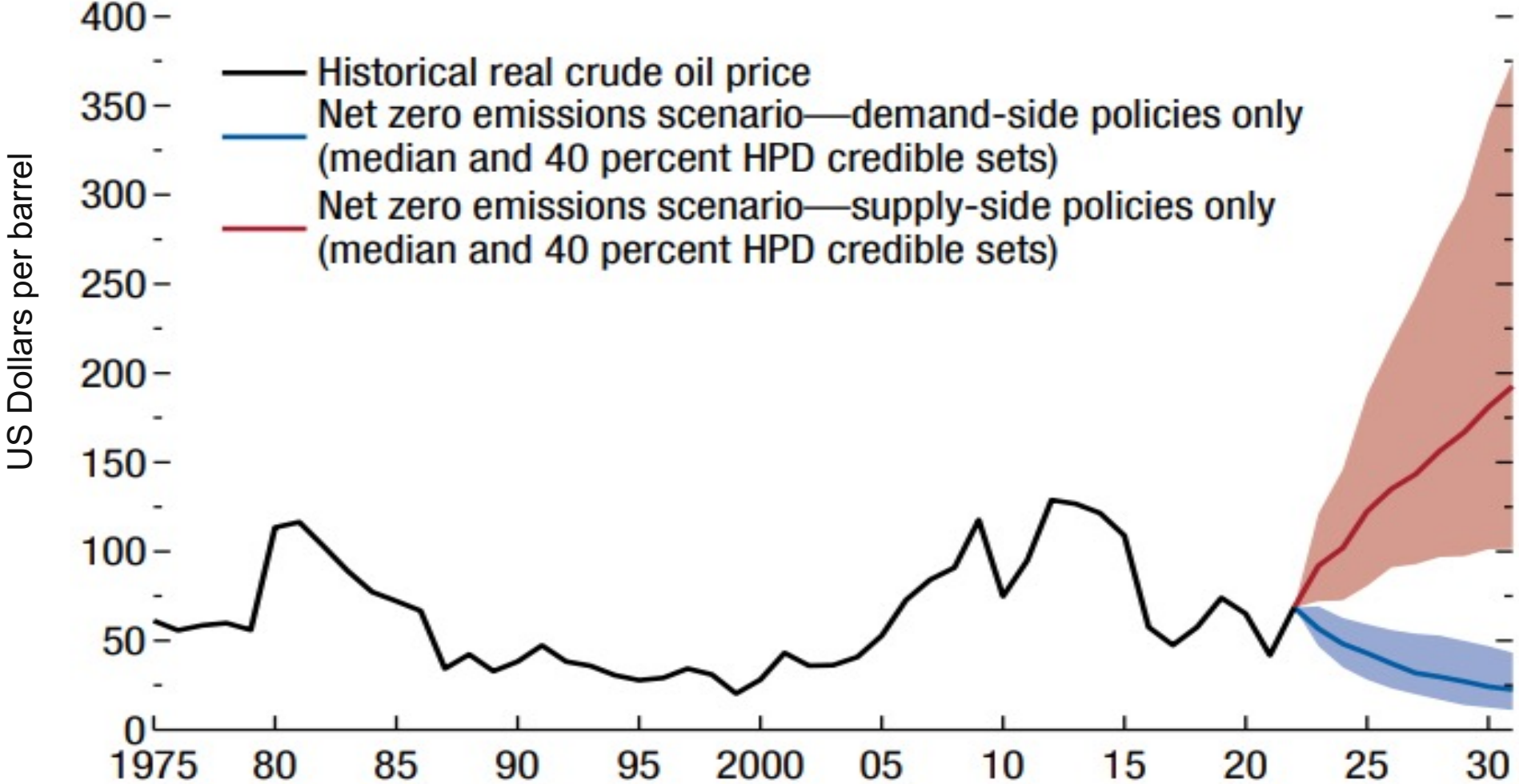
## Financial commitments to net zero



# Annual investment for net zero must double to around \$4trn/yr



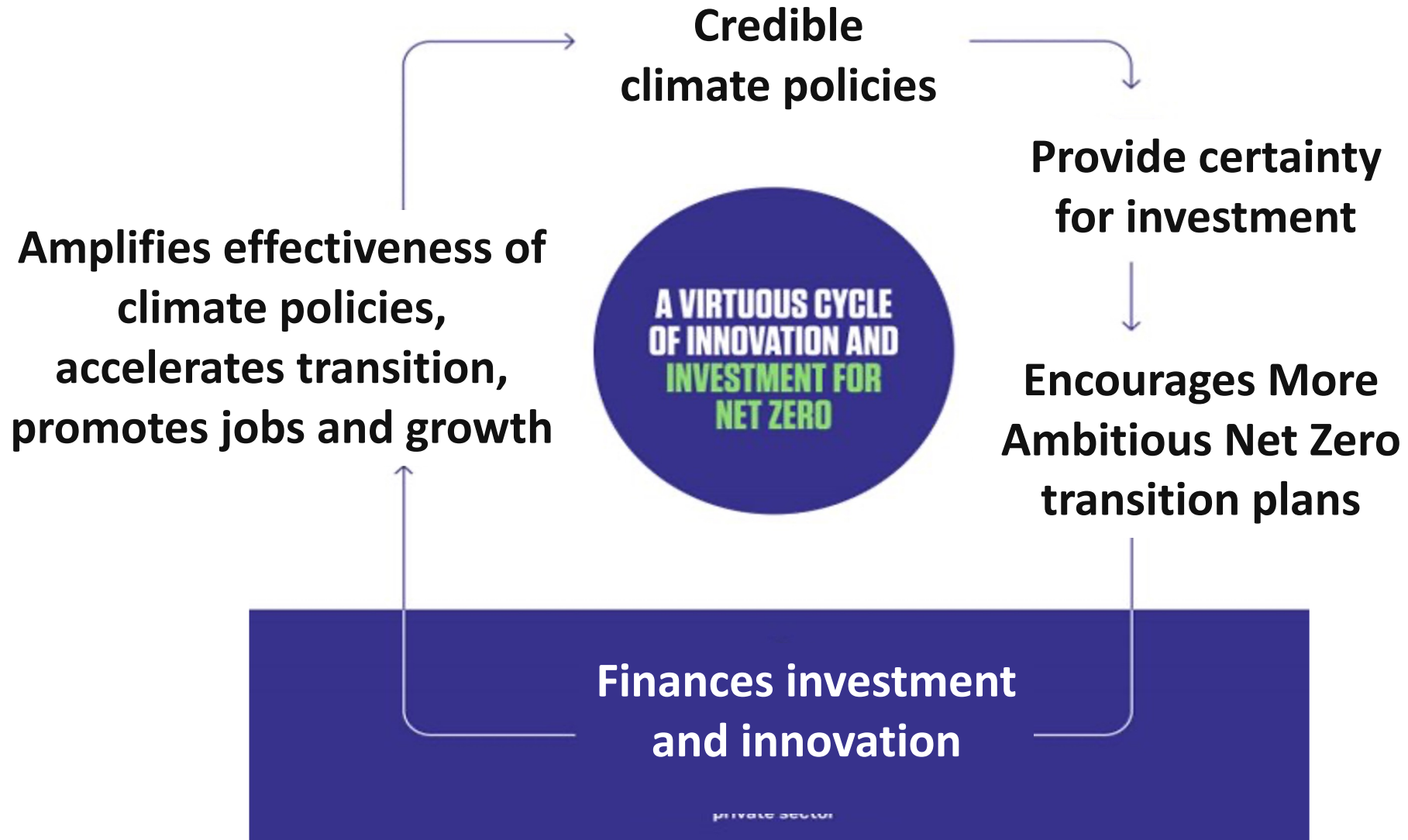
# Oil prices depend heavily on the nature of Net Zero transition



Source: IMF World Economic Outlook, April 2022

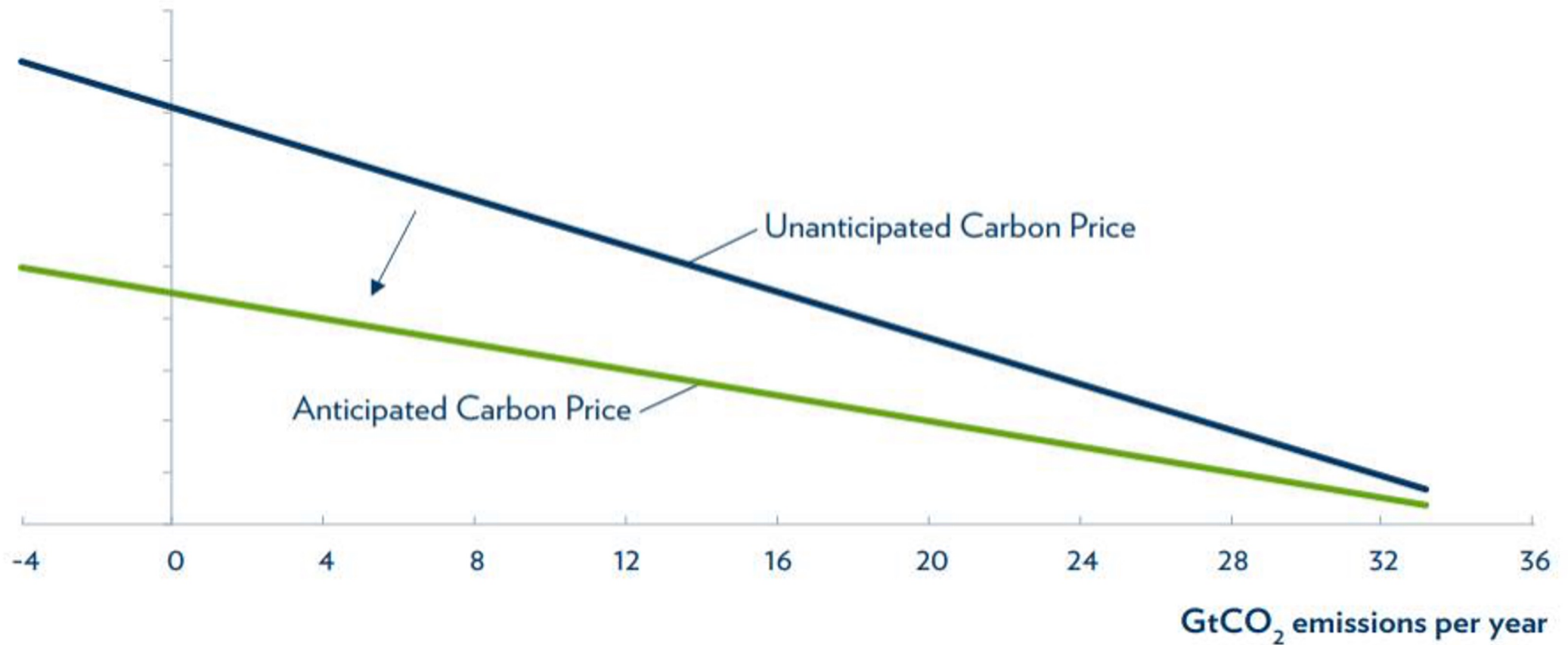
# Credible & predictable policies amplify & accelerate investment

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# Credibility means that 'less is more'

## Required Carbon price



# COP26 Key Takeaways

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- ✓ **1.5 'still alive'** with formal agreement, G20 pact, and increased country pledges
- ✓ 'Mind the (policy) gap': **1-year review** to drive more ambition
- ✓ **Deep decarbonization** gaining momentum (methane, deforestation, and coal)
- ✓ COP rule book finalized: large-scale **carbon offset markets** now possible
- ✓ Growing **private sector** leadership
- ✓ Net zero financial system being built to drive **capital/solutions**



# Energy Revolutions Require Financial Revolutions



## Industrial Revolution

### Fractional Reserve Banking

- Maturity transformation
- Financial leverage

### Central Banks

- Lender of last resort
- Supervision

### International Monetary & Financial System

- Gold standard
- Free flow of capital



## Sustainable Revolution

### Financial System

- Aligning with Net Zero transition
- 'Carbon' leverage

### Central Banks / Supervisors

- Climate disclosure
- Supervision of transition risks

### International Monetary & Financial System

- Blended finance
- Transition-aligned private flows
- Carbon markets

Creating a Financial System where every decision takes climate change into account

✓  
TCFD  
STOCKTAKE

✓  
TCFD  
IMPLEMENTATION  
GUIDANCE

✓  
COMPANIES  
COMMITTED TO  
TCFD

✓  
TCFD  
LISTING  
GUIDANCE

✓  
GLOBALLY-  
CONSISTENT  
REPORTING

✓  
ASSURANCE  
OF COMPANY  
ACCOUNTS

✓  
COUNTRIES  
MANDATE  
TCFD

✓  
CLIMATE  
RISK  
GUIDANCE

✓  
CLIMATE  
SCENARIO  
ANALYSIS

✓  
SECTOR-  
SPECIFIC  
SCENARIOS

✓  
CENTRAL  
BANK  
MANDATES

✓  
CENTRAL  
BANK  
DISCLOSURE

✓  
CLIMATE  
TRAINING  
ALLIANCE

✓  
IMF  
SURVEILLANCE

✓  
INTERNATIONAL  
REGULATORY  
APPROACH

✓  
INSURANCE  
& RISK  
MODELLING

✓  
CREDIBLE  
NET-ZERO  
TRANSITION  
PLANS

✓  
PORTFOLIO  
ALIGNMENT  
METRICS

✓  
FINANCE  
COMMITMENTS  
TO NET ZERO

✓  
COUNTRY  
PLATFORMS

✓  
ADDRESSING  
PROTECTION  
GAP

✓  
DEVELOPMENT  
BANKS'  
LENDING

✓  
VOLUNTARY  
CARBON  
MARKETS

✓  
CONSUMER-  
FRIENDLY  
METRICS

# Core elements to support transition in **mainstream** markets

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**Mandatory TCFD disclosure (ISSB & SEC)**

**Widespread Climate stress testing**

**Science-based transition plans**

**Portfolio alignment**

**Frameworks to phase out stranded assets**

# GFANZ spans the global financial sector

## Net Zero Asset Owners Alliance

**Members:** 69 investors representing **\$10.5tn**

**Commitments:** transition portfolios to net zero emissions by 2050, publishing interim targets every 5 years, starting with 2025

**Structure:** UN convened

## Net Zero Asset Managers Initiative

**Members:** 220 AMs representing **\$57tn**

**Commitments:** interim 2030 target for proportion of assets to be managed in line with net zero by 2050. Review target every 5 years, working for 100% asset coverage by 2050.

**Structure:** led by Investor Agenda (IIGCC, AIGCC, Ceres, IGCC, CDP, PRI)

## Net Zero Banking Alliance

**Members:** 102 banks representing **\$67tn**

**Commitments:** align operational and financed emissions with net-zero by 2050 or sooner, including 2030 interim targets

**Structure:** industry-led, co-founded by UNEP FI and HRH's Sustainable Markets Initiative (SMI).

## Paris Aligned Investment Initiative

**Members:** 53 asset owners representing **\$2.9trn**

**Commitments:** transition investment portfolios to net zero emissions by 2050, including 2030 interim targets

**Structure:** convened by IIGCC, Ceres, AIGCC and IGCC

## Net Zero Insurance Alliance

**Members:** 21 (re)insurers

**Commitments:** members commit to transition underwriting portfolio to net zero emissions by 2050, including 2030 interim targets

**Structure:** U-convened

## Net Zero Financial Service Providers Alliance

**Members:** 23 across credit rating agencies, data providers and listing exchanges

**Commitments:** align services and products to support financial firms to reach net zero by 2050 or sooner, consistent with a maximum average global temperature rise of 1.5°C above pre-industrial levels

Formalised in international architecture



Reports into the FSB, ensuring policy recommendations and workstream outputs captured in international regulations



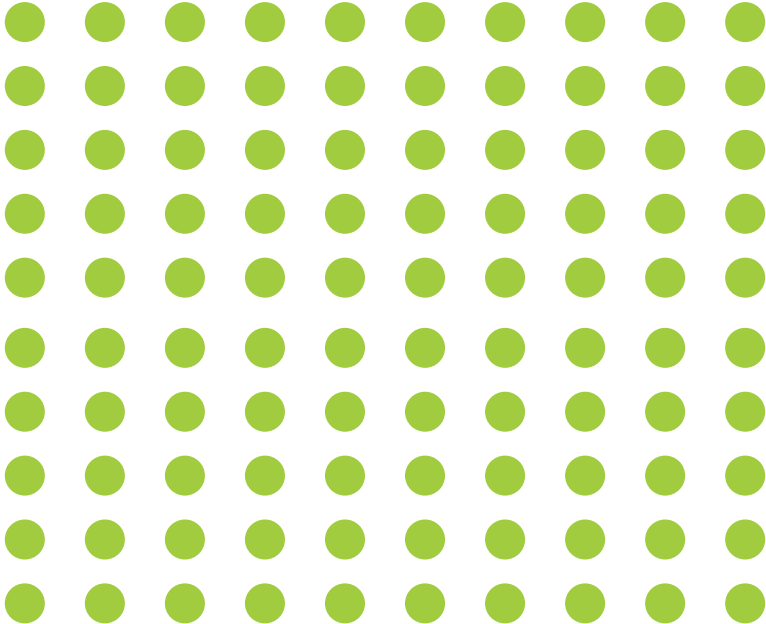
Underpinned by the rigour of UNFCCC's Race to Zero. Criteria set by independent expert group of academics, scientists and NGOs/



Regional hubs in Asia and Africa to ensure geographic representation and reach

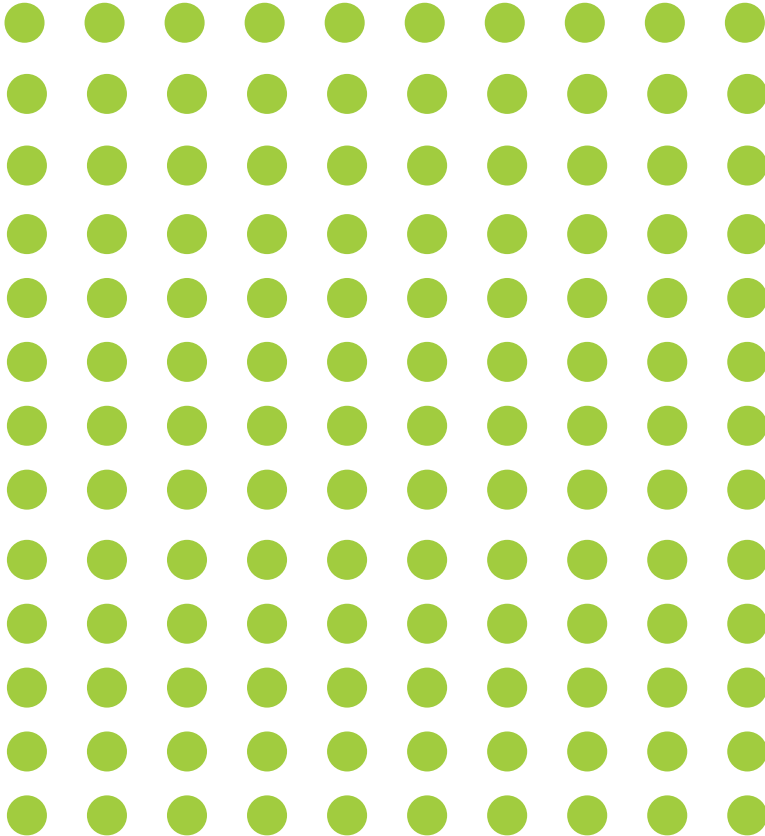
# 40% of the world's financial assets are now pledged to net zero

**\$100 TRILLION**



FINANCE NEED FOR NET ZERO THROUGH 2050

**\$130 TRILLION**



FINANCE COMMITTED TO NET ZERO THROUGH GFANZ

Note: Glasgow Financial Alliance for Net Zero (GFANZ).

# Helping to End the Tragedy of the Horizon



# Translating net zero pledges into climate action

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Transition-consistent **Energy Financing**

Transition plan framework for **financial institutions**

Guidance for **real-economy company** transition plans

Guidance on decarbonization pathways across sectors

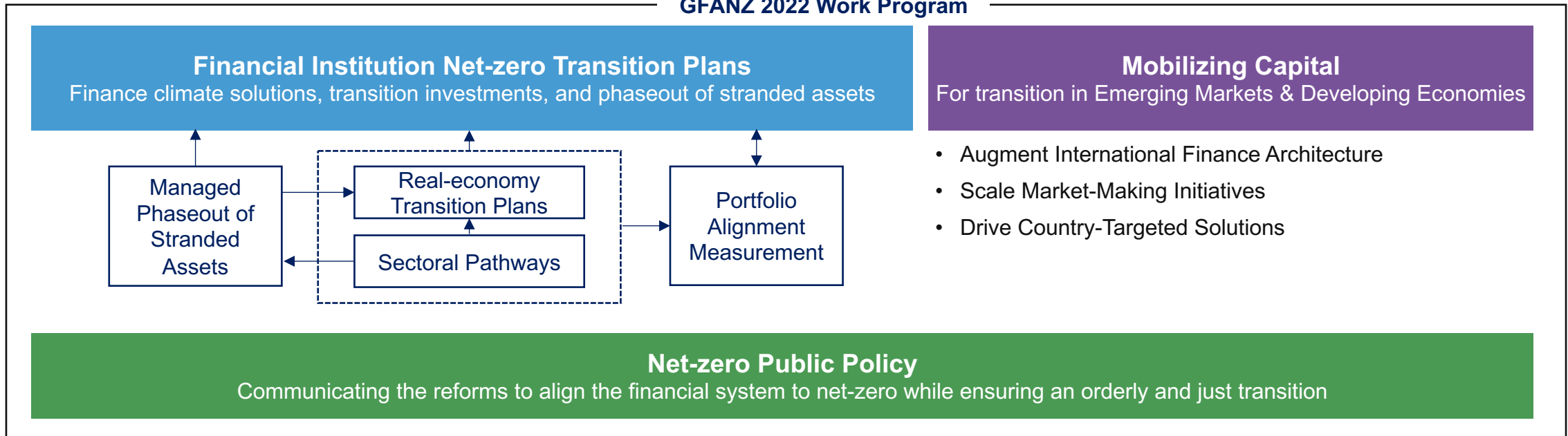
Guidance on **portfolio alignment**

Frameworks to **phase out** high-emission assets

**Just Energy Transition** Partnerships for EMDE Transition Financing

# GFANZ Work Program

## GFANZ 2022 Work Program

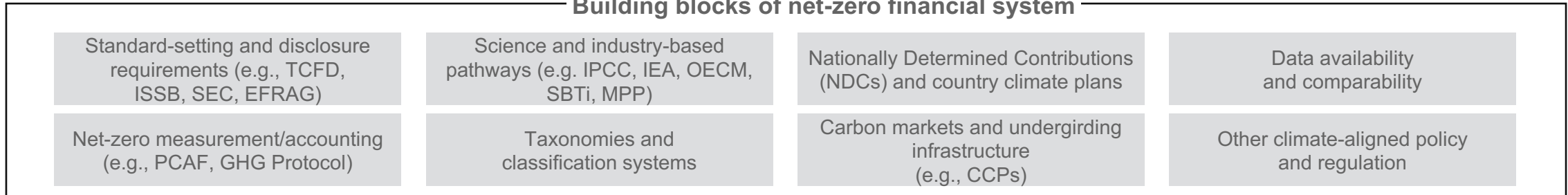


**Mobilizing Capital**  
For transition in Emerging Markets & Developing Economies

- Augment International Finance Architecture
- Scale Market-Making Initiatives
- Drive Country-Targeted Solutions

**Net-zero Public Policy**  
Communicating the reforms to align the financial system to net-zero while ensuring an orderly and just transition

## Building blocks of net-zero financial system





# Decarbonization is an enormous value-creation opportunity

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**A global imperative that has accelerated over the last two years**

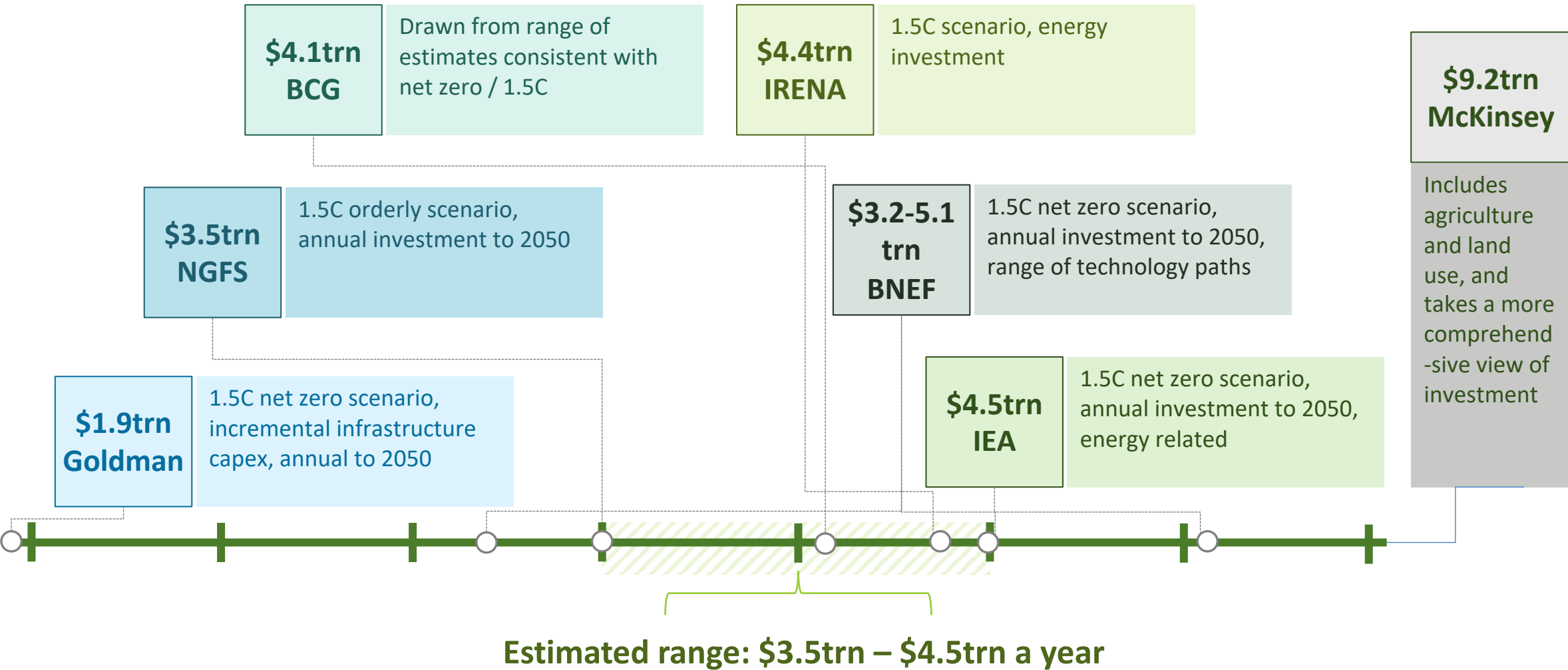


**Requires a global, whole-economy transition**

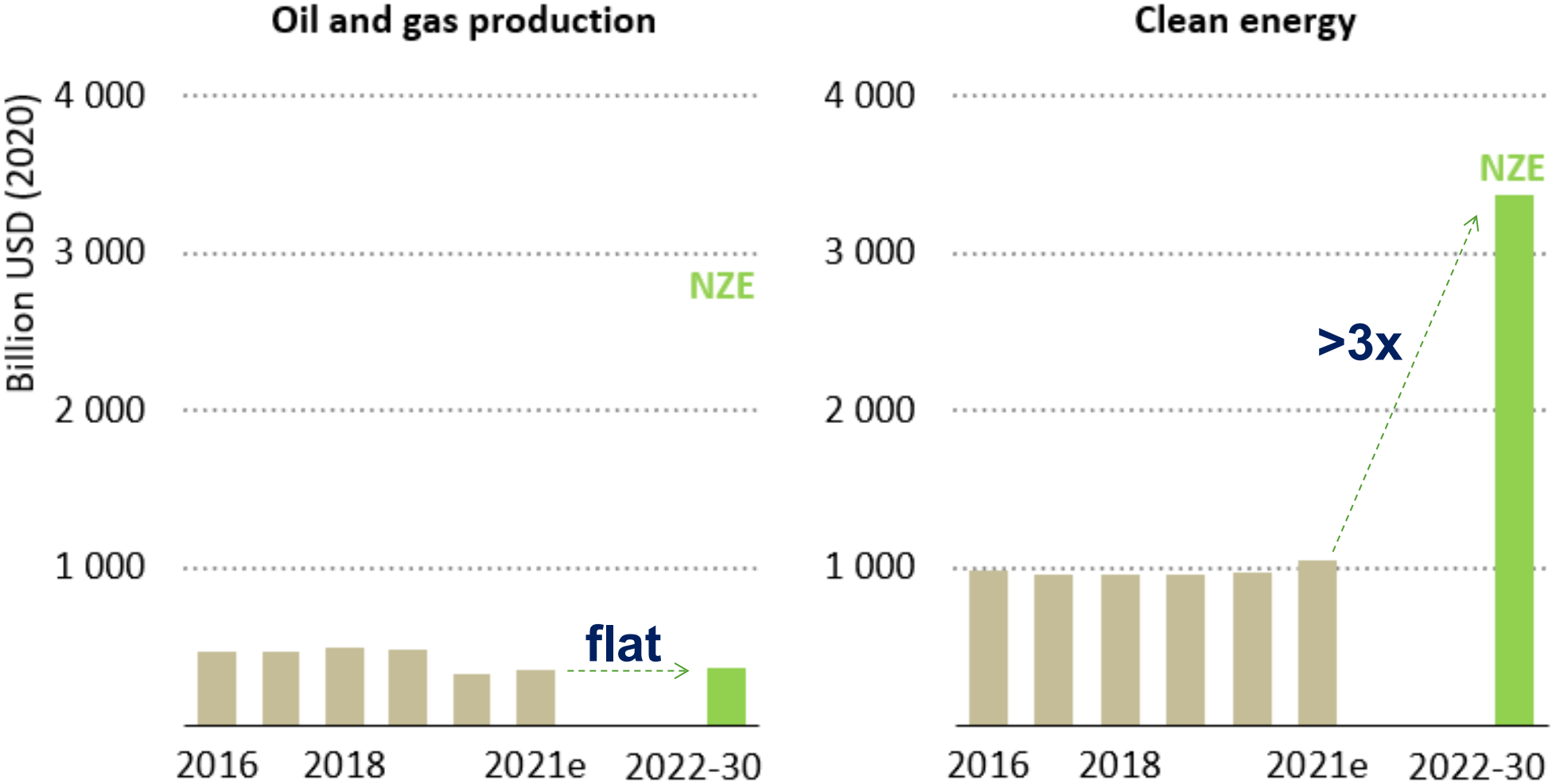


**Creating a massive economic opportunity, requiring significant capital and deep operating expertise**

# Annual investment for net zero must double to around \$4trn/yr

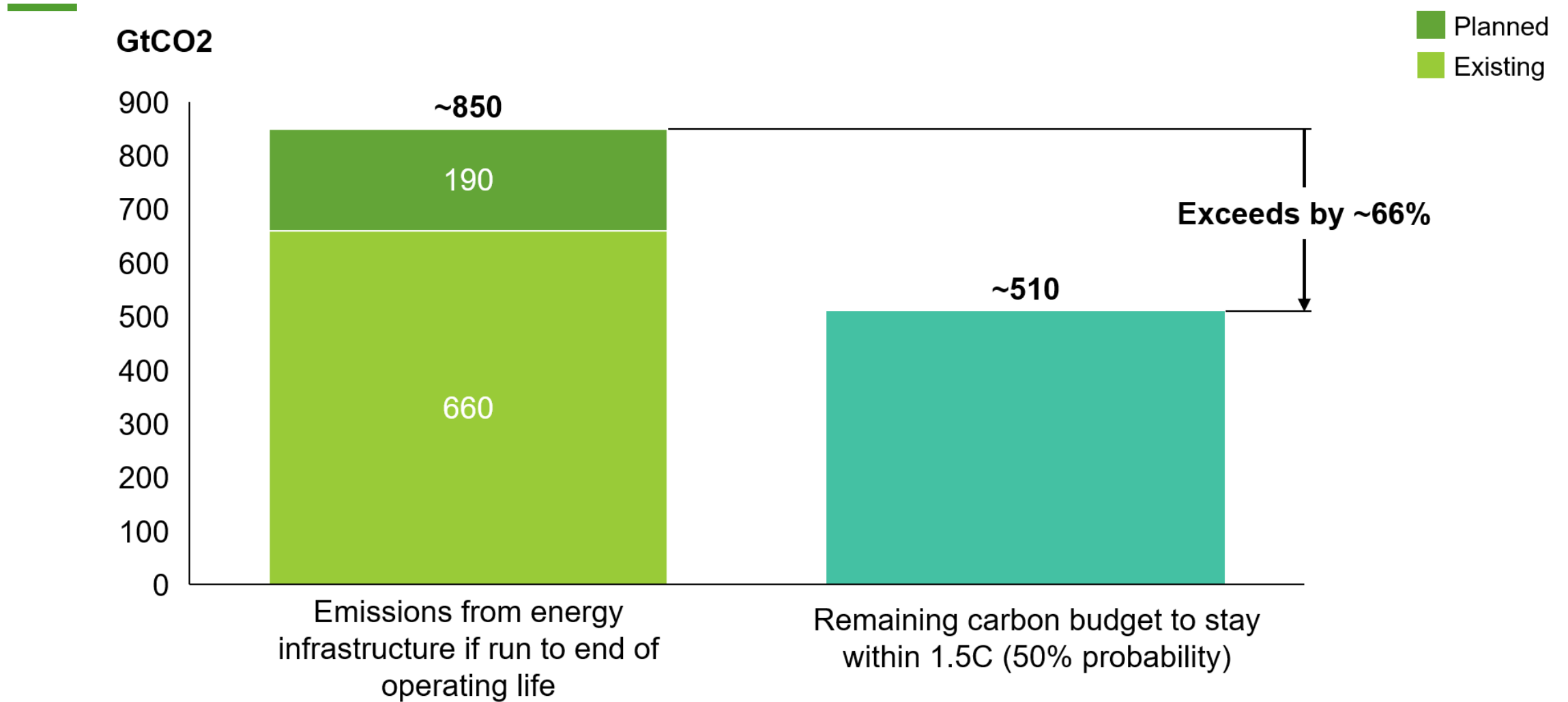


# Fossil fuel investment in line but clean energy not rising fast enough



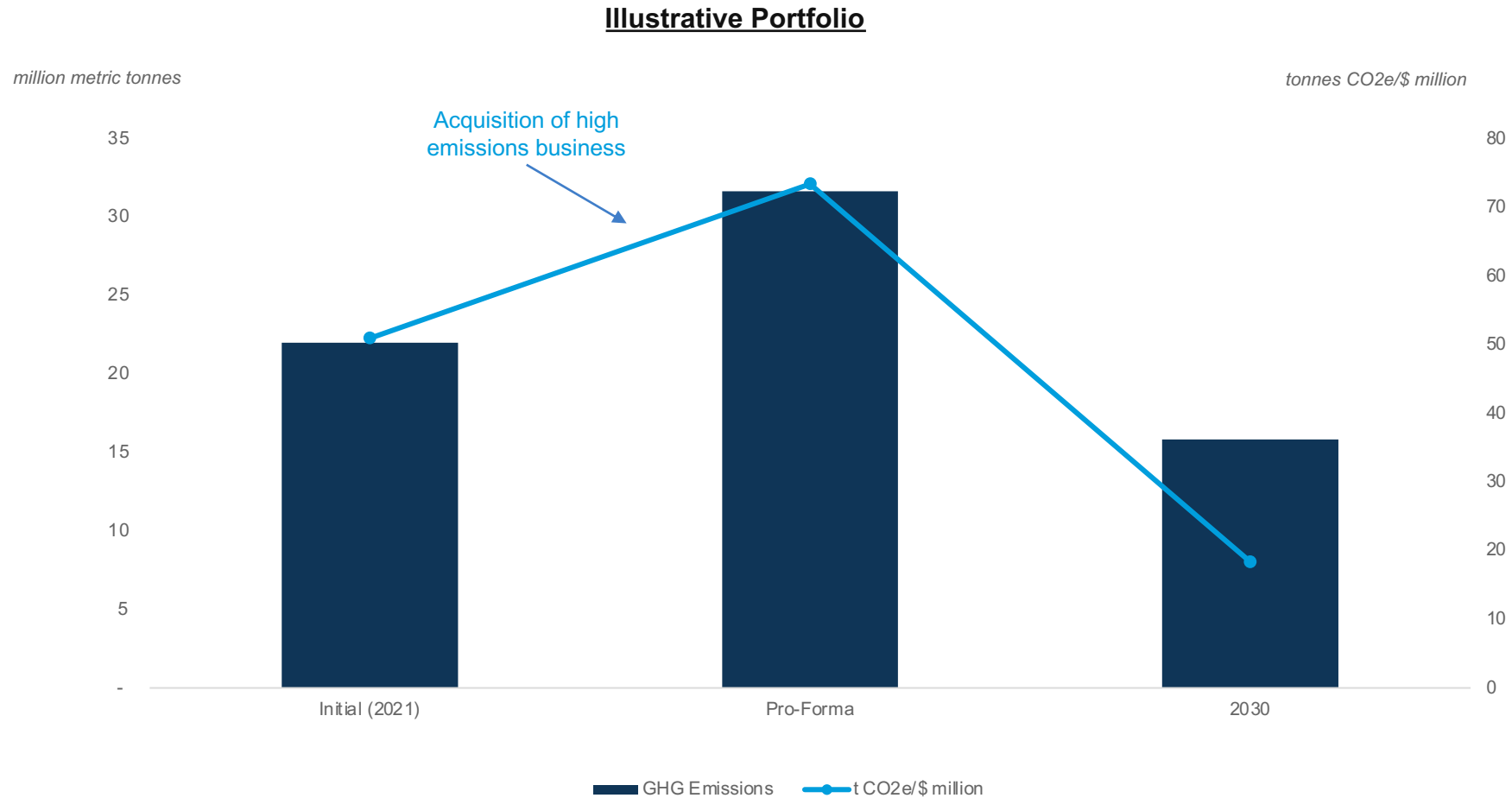
Source: IEA World Energy Outlook 2021

# Enormous Stranded Assets



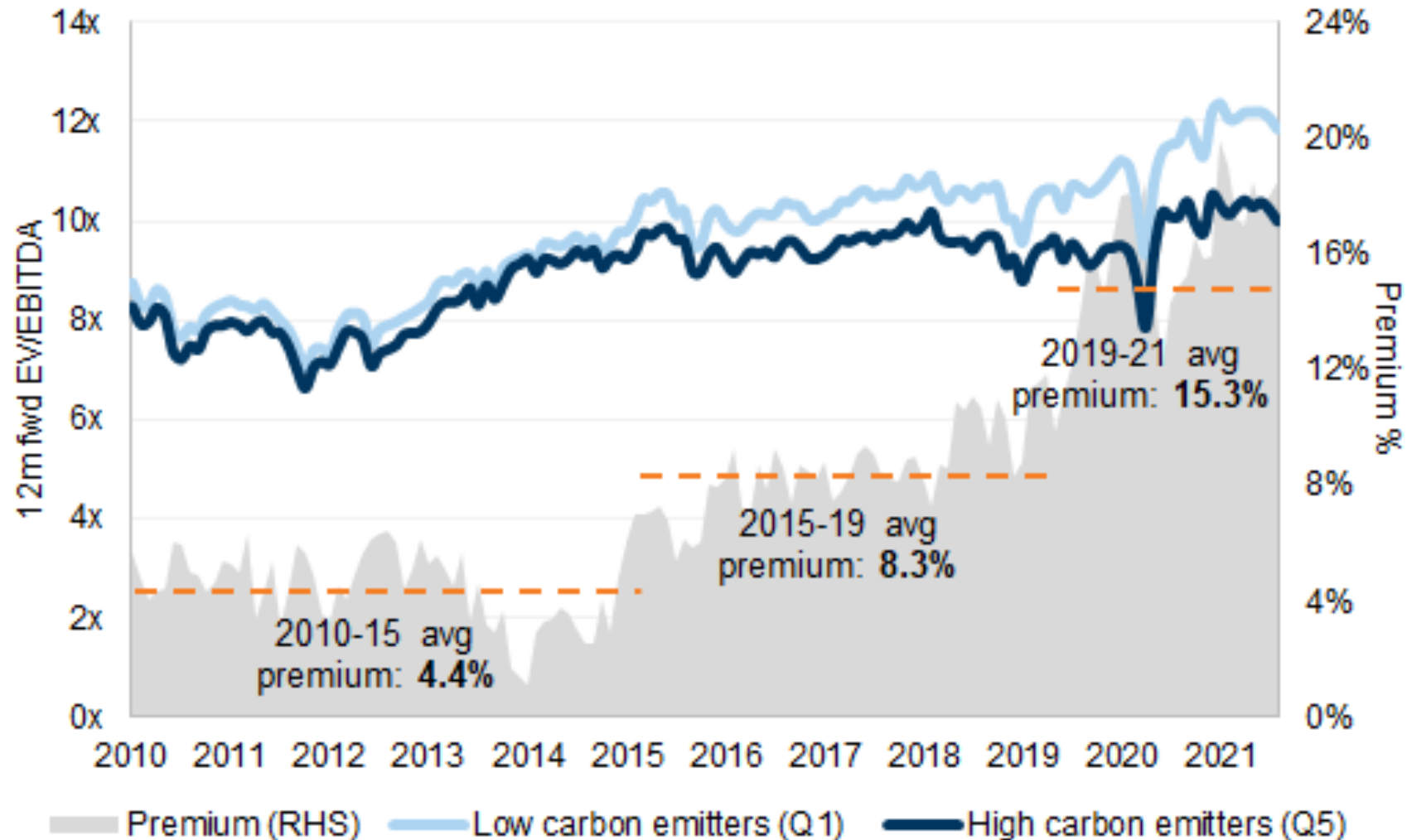
Source: IPCC. Climate Change 2022, Mitigation of Climate Change

# 'Going where the emissions are' drives impact...



*Illustrative example assumes allocating 5% of capital into a high emission business (e.g. utility) that has ~500 tonnes of CO2e/\$ million. Based on PCAF measurement for financed emissions using an attribution approach based on Enterprise Value. Expected 50% reduction in absolute GHG emissions and 8% annualized rate of return on investment portfolio*

## ... and Value: low emitting companies already trade at premiums



# Outstanding Macro Issues

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- ✓ **Implementation of more ambitious country policies** to close policy gap
- ✓ Develop **country platforms** to scale \$1 trillion in annual capital flows to EMDEs
- ✓ **Complete financial architecture of Net Zero** (mandatory transition plans, re-weighting of passive indices, integration of carbon offset markets)
- ✓ **Energy transition underspecified** (need comprehensive approach including managed phase out of stranded assets)
- ✓ Increased focus on **Nature and Just Transition**

# Potential LAPP/AIMCO Considerations

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- ✓ **Engagement** strategy with portfolio companies
- ✓ Appetite for carbon accretion / dilution
- ✓ Measuring and managing **transition alignment** across public & private portfolios
- ✓ Risk management including **terminal values** under multiple scenarios
- ✓ Strategies for '**Breakthrough**' technologies, **Offsets** and **Nature**
- ✓ Engagement with GFANZ, regulators and policymakers to help **complete the financial architecture of Net Zero**



The **Net Zero transition** is a **global imperative** and an **enormous commercial opportunity**

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