

Scaling Up Sustainable Finance: Mechanisms and Global Practices

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Policy Forum – Thailand's Taxonomy Framework: Transitioning towards Environmental Sustainability

Bank of Thailand & Puey Ungphakorn Institute for Economic Research

13 December 2022

Outlook

- Introduction
- A new governance framework for sustainable finance is emerging
- The EU sustainable finance regulation and its implications for the rest of the world
- Markets are looking for ESG investment opportunities
- The pitfalls of ESG investing
- Conclusion: The need to adapt to a new environment

Introduction

The world is facing major challenges

- Climate crisis
- Ecological crisis
- Social inequality

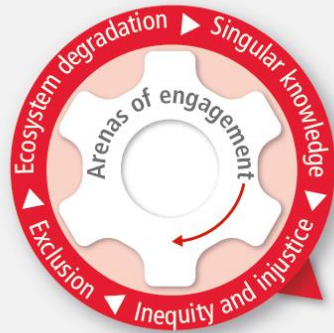
- COVID-19 has demonstrated the vulnerability and lack of resilience of societies and economies.
- To address these challenges, we need finance to be part of the solution, not part of the problem.

(a) Societal choices about adaptation, mitigation and sustainable development made in arenas of engagement

Dimensions that enable actions towards higher climate resilient development

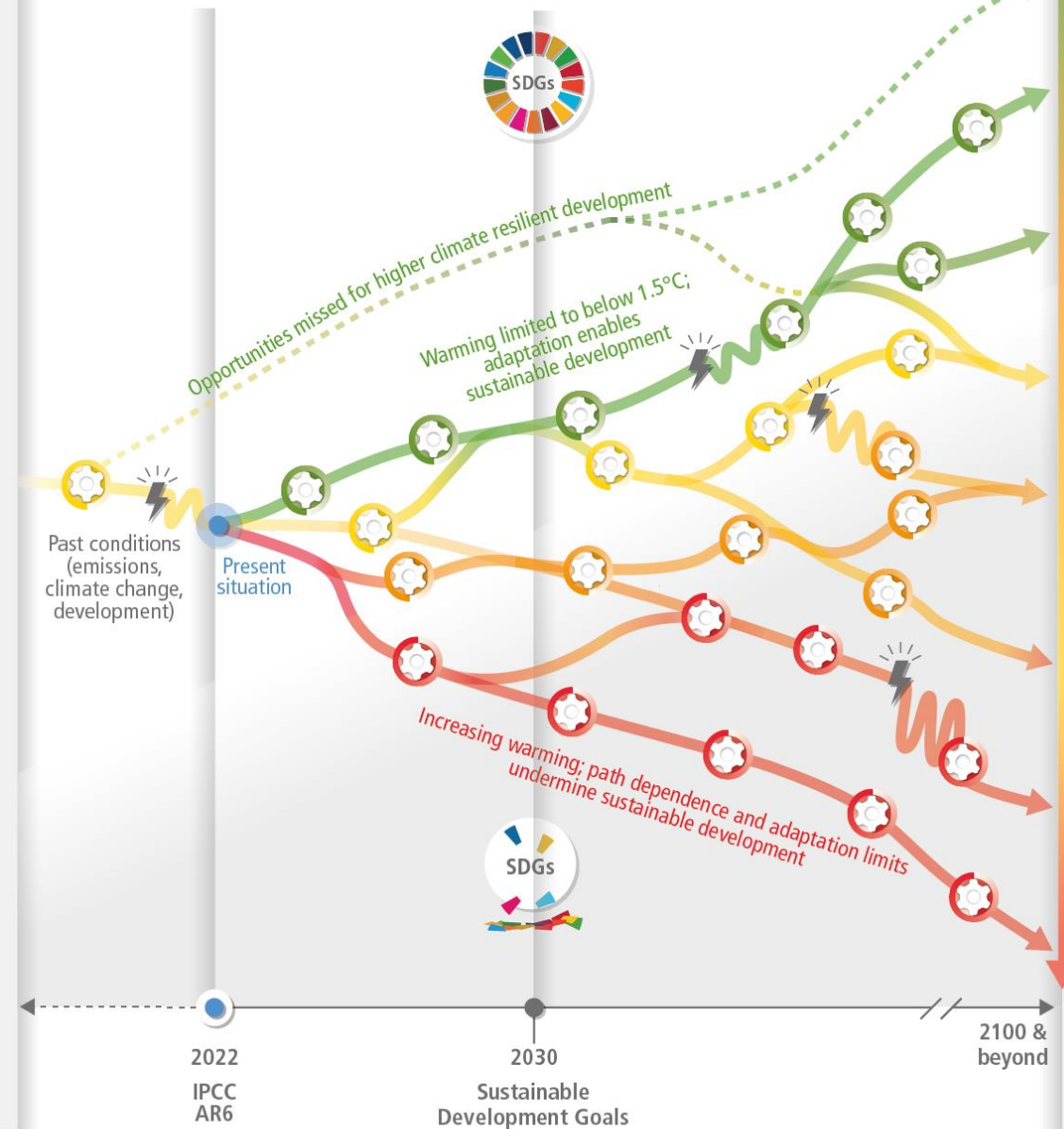


- Arenas of engagement:**
- Community
 - Socio-cultural
 - Political
 - Ecological
 - Knowledge + technology
 - Economic + financial

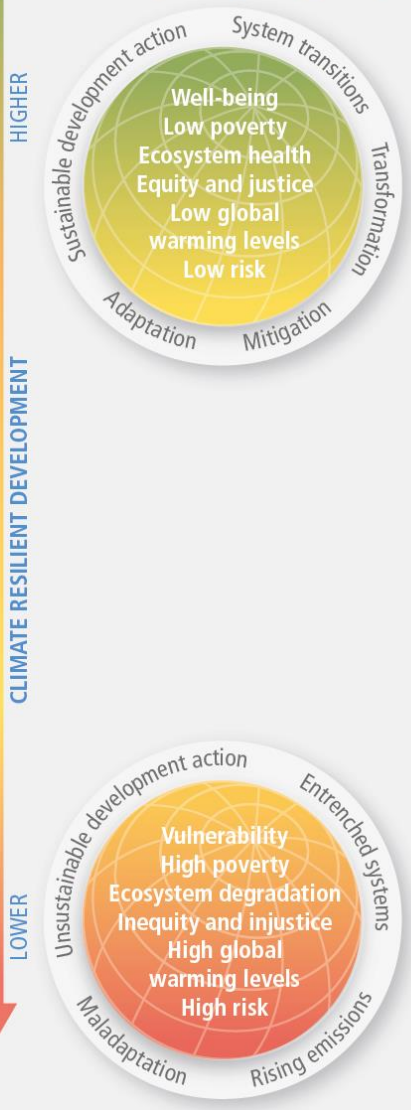


Dimensions that result in actions towards lower climate resilient development

(b) Illustrative development pathways

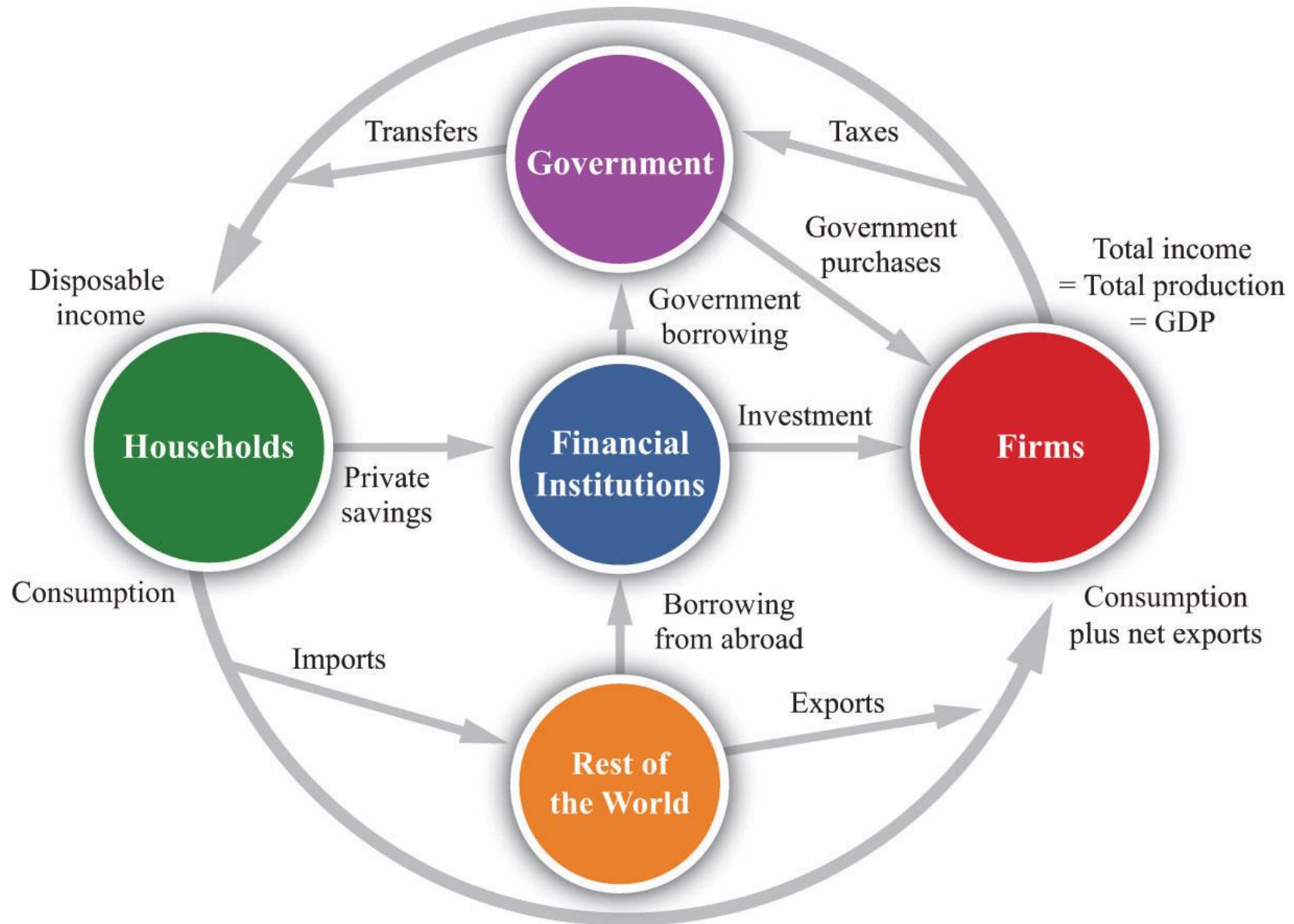


(c) Actions and outcomes characterizing development pathways



⚡ Illustrative climatic or non-climatic shock, e.g. COVID-19, drought or floods, that disrupts the development pathway

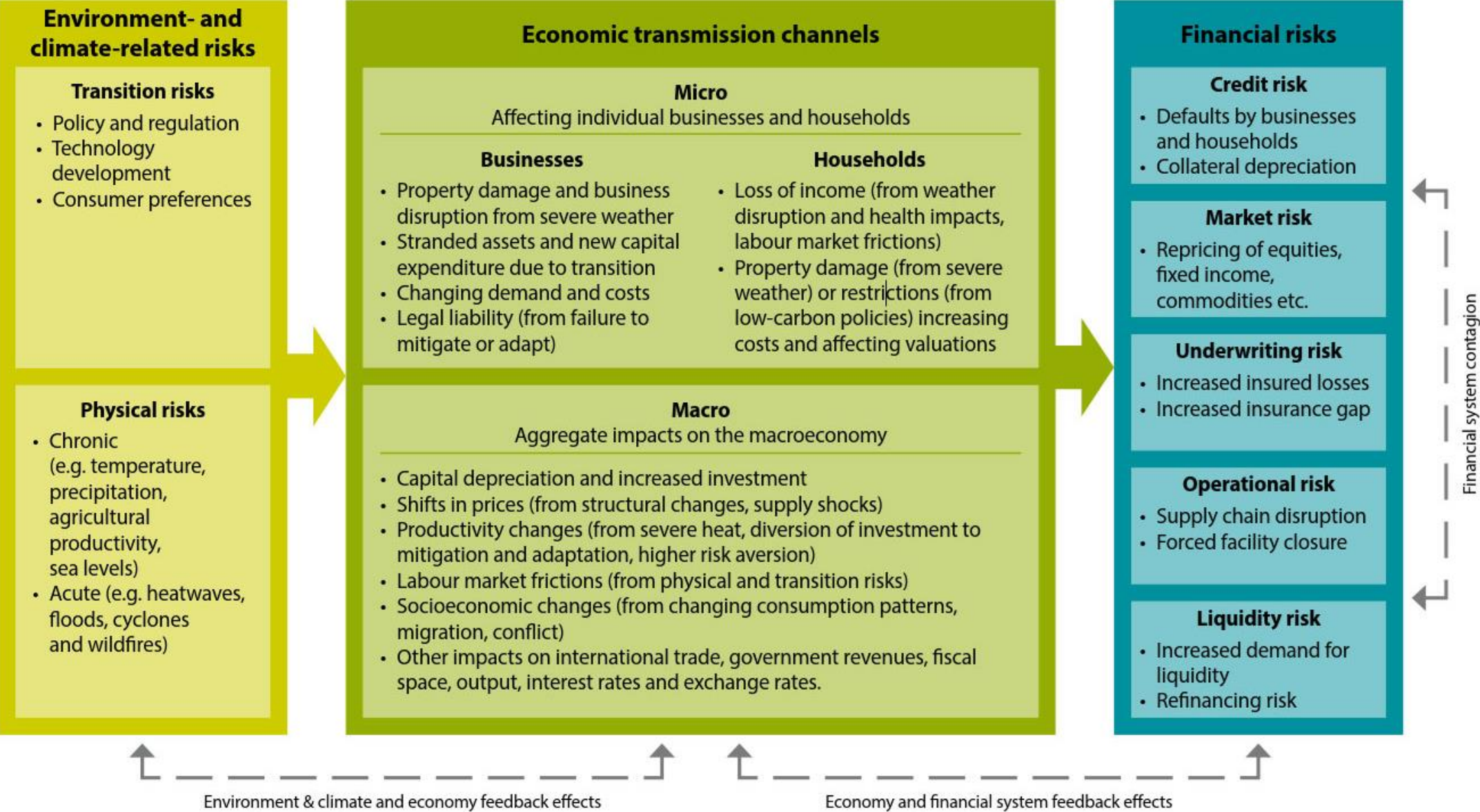
▭ Narrowing window of opportunity for higher CRD



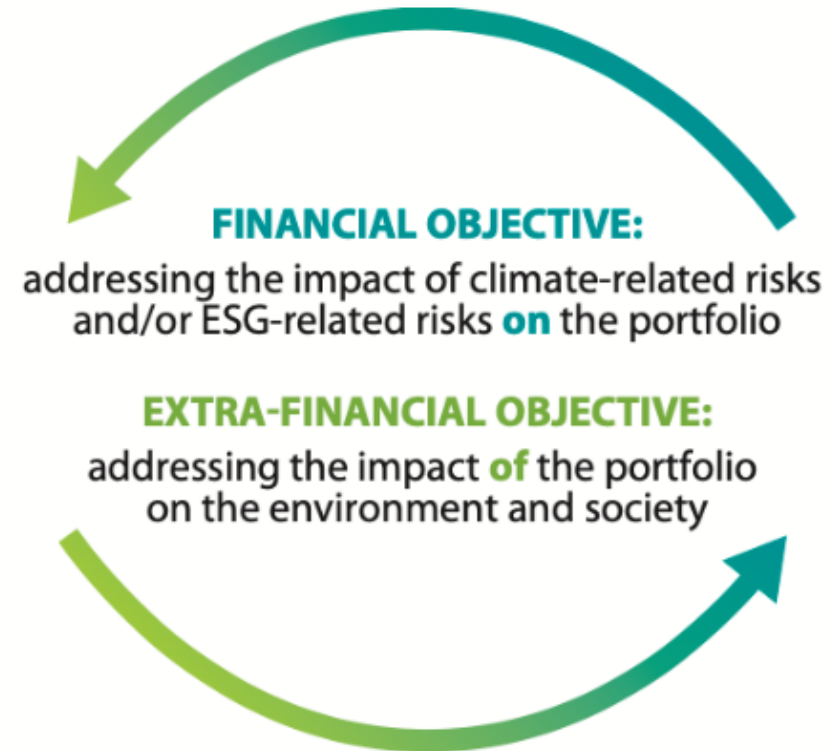
Sustainability has become a mega-topic in finance

- 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.

From environment- & climate-related risks to financial risks



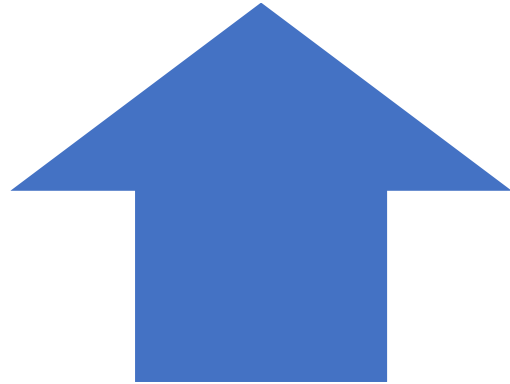
Double materiality



Source: NGFS (2019).

A new governance framework for sustainable finance is emerging

A dual challenge for central banks and supervisors

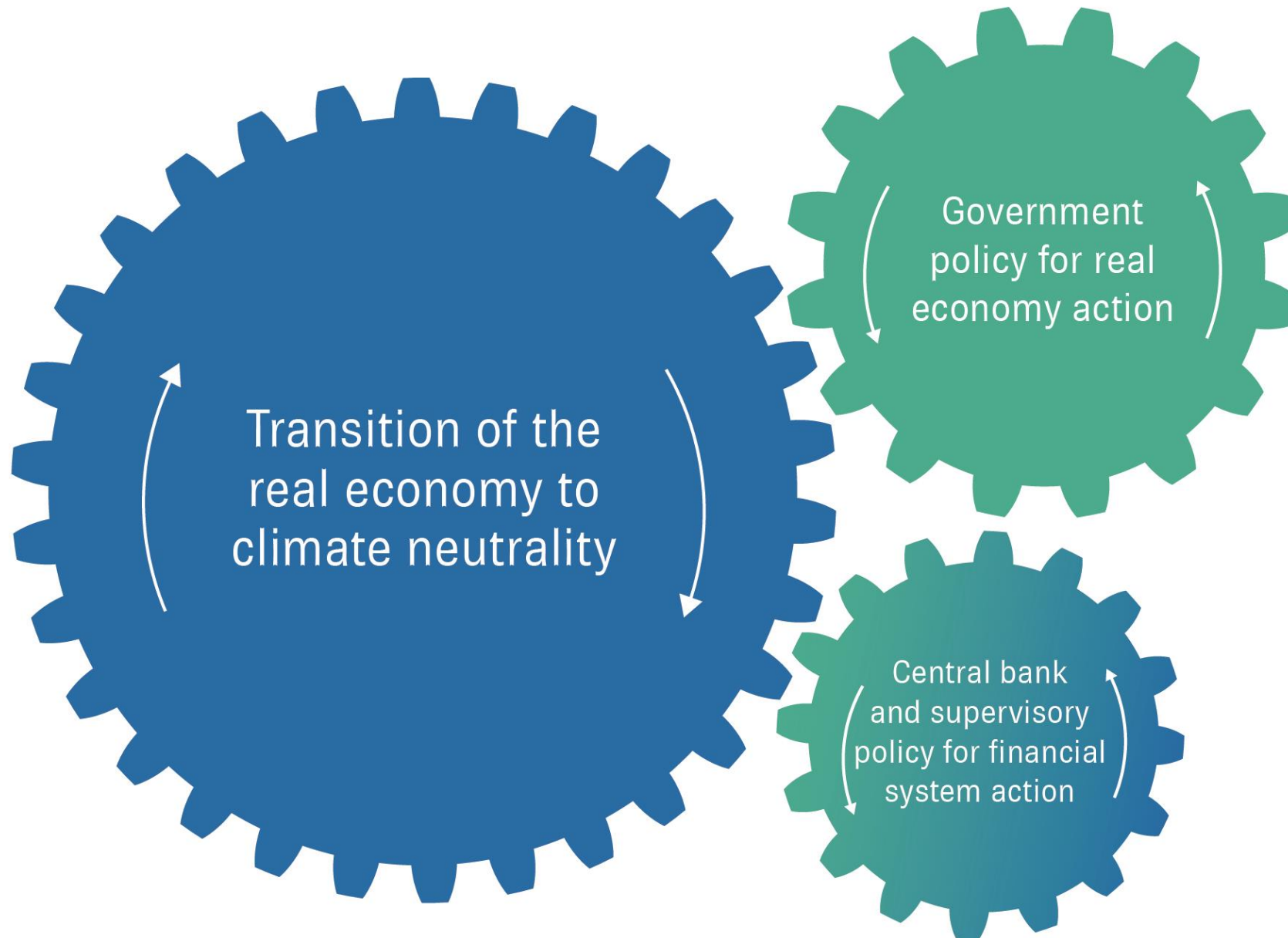


Support the alignment of financial markets with sustainability goals and the scaling up of sustainable finance and investment.



Mitigate macroeconomic and financial stability risks stemming from the physical and transition risks of climate change and nature loss.

- By supporting an alignment of the financial sector with climate, nature and other sustainability goals, central banks and supervisors can contribute to a climate/nature-proofing of the economy and make the economy less vulnerable to future shocks.



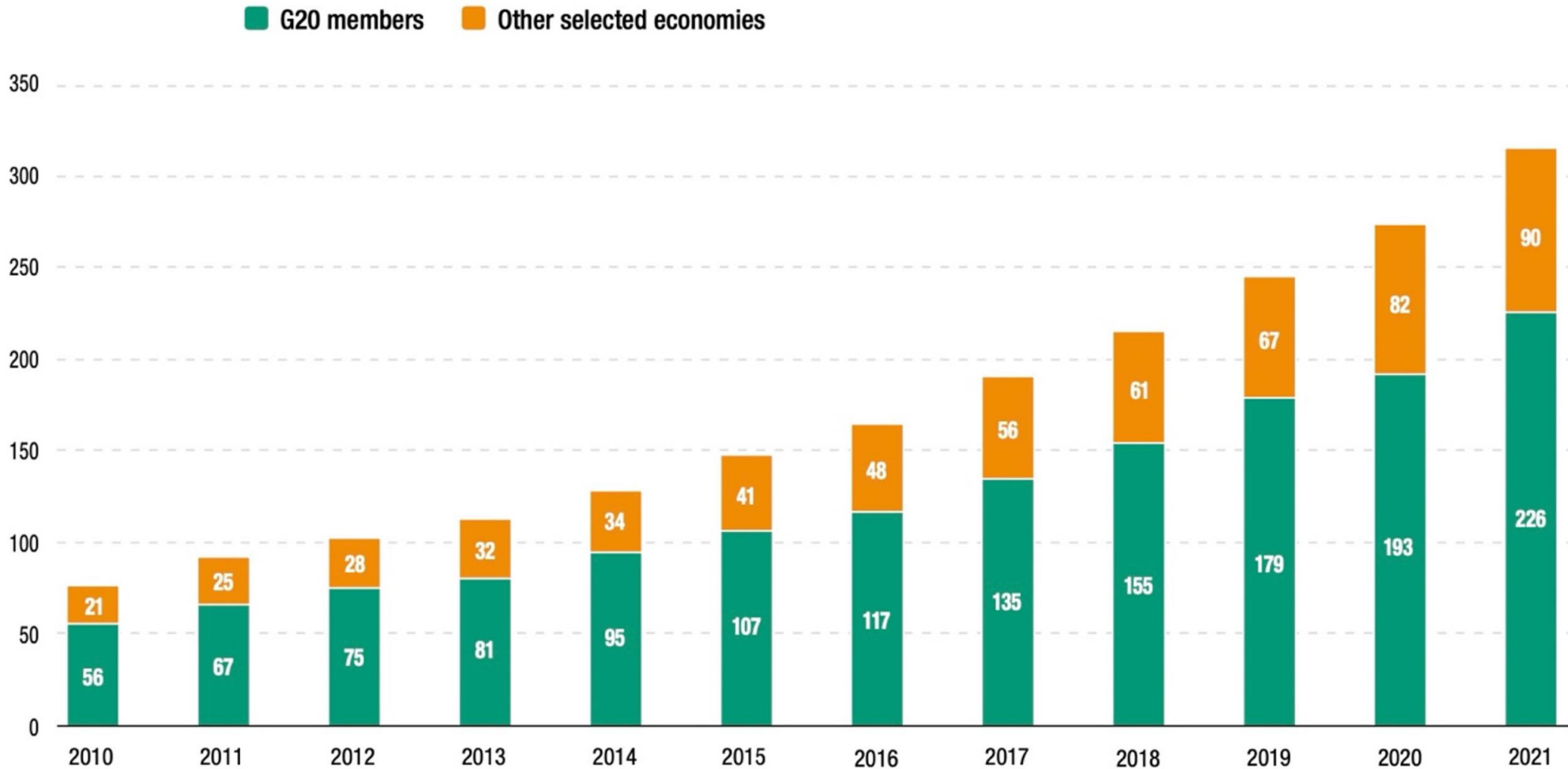
Source: Dikau, Robins and Volz (2021).

Network of Central Banks and Supervisors for Greening the Financial System (NGFS)

- Founded at the Paris “One Planet Summit” in December 2017 by eight central banks and supervisors.
- Consists now of 121 members and 19 observers.



Sustainable finance policy measures and regulations in selected developed and developing economies, 2010-2022



Note: Other selected economies include Switzerland, as well as 13 developing economies (Bangladesh, Chile, Colombia, Egypt, Hong Kong (China), Kenya, Malaysia, Nigeria, the Philippines, Singapore, Thailand, the United Arab Emirates and Viet Nam), and ASEAN. Relevant measures of the EU are included in the number for the G20.

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

- Disclosures.
- Taxonomies.
- Scenario analysis and climate stress tests.
- Prudential frameworks.

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

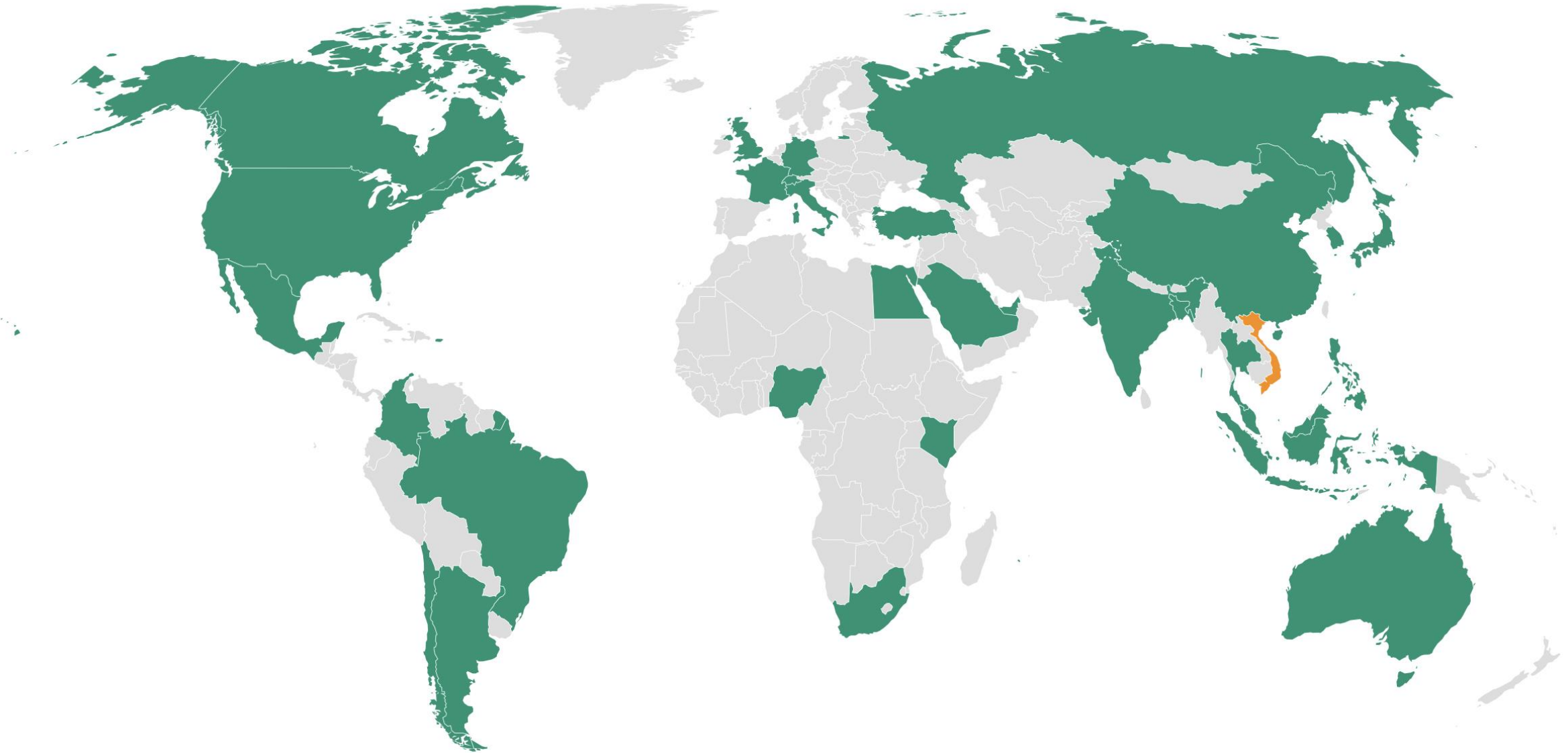


Principles for Responsible Investment



Sustainability disclosure measures

■ No Policy ■ In Development ■ Implemented ■ Covered by EU



Source: UNCTAD (2022).

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](#)

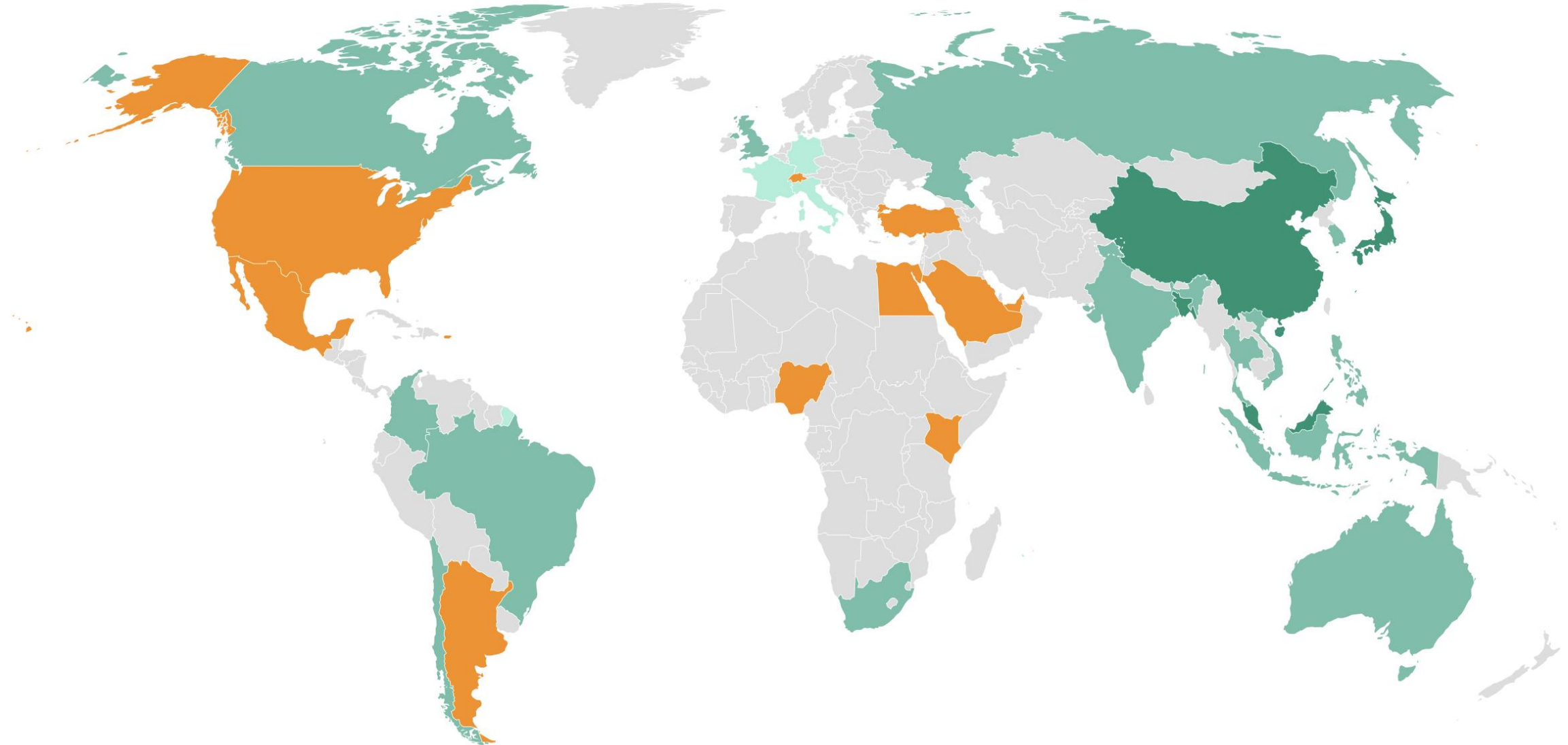
[IFRS Foundation Constitution](#)

[ISSB: Frequently Asked Questions](#)

[International Sustainability Standards Board](#)

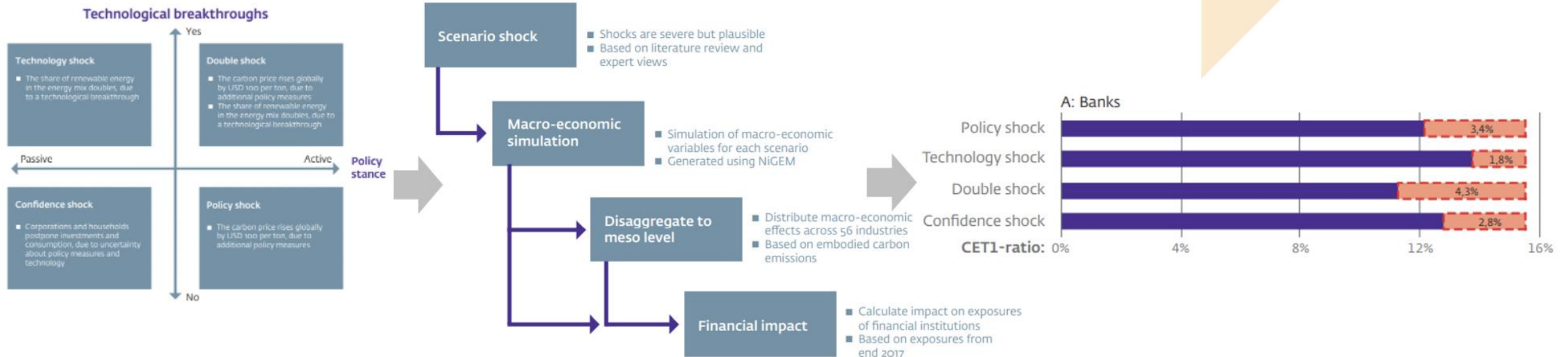
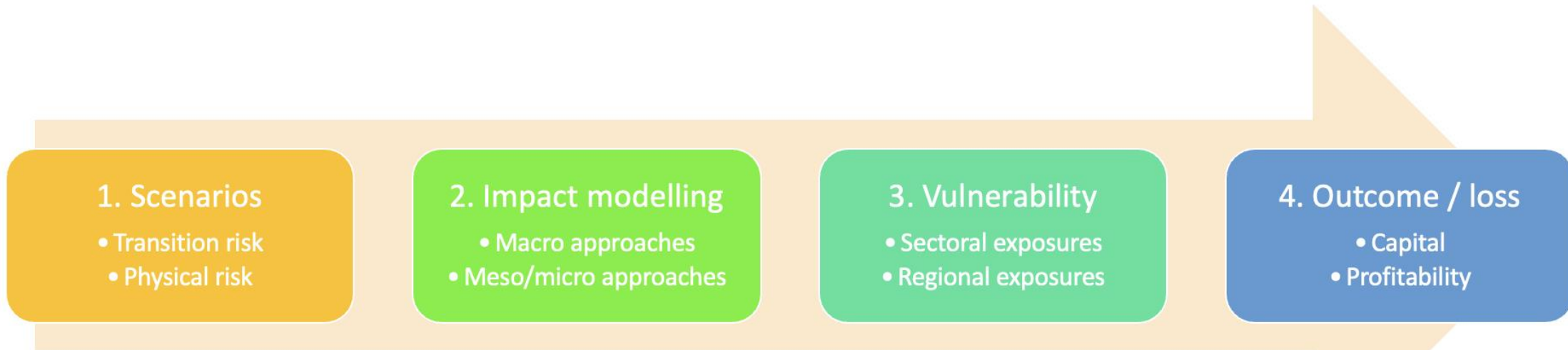
Sustainable finance taxonomy

■ No Policy ■ In Development ■ Implemented ■ Covered by EU



Source: UNCTAD (2022).

Scenario analysis and climate stress tests



Source: Vermeulen et al. (2018).

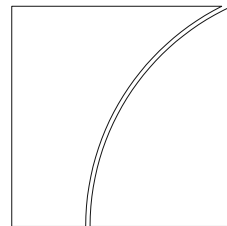
FSB Roadmap for Addressing Financial Risks from Climate Change

2022 progress report



14 July 2022

Basel Committee on Banking Supervision

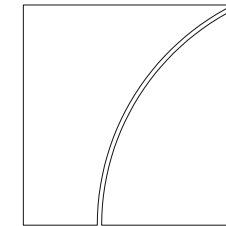


Principles for the effective management and supervision of climate-related financial risks

June 2022



Basel Committee on Banking Supervision



Frequently asked questions on climate-related financial risks

8 December 2022



The EU sustainable finance regulation and its implications for the rest of the world

The EU sustainable finance regulation

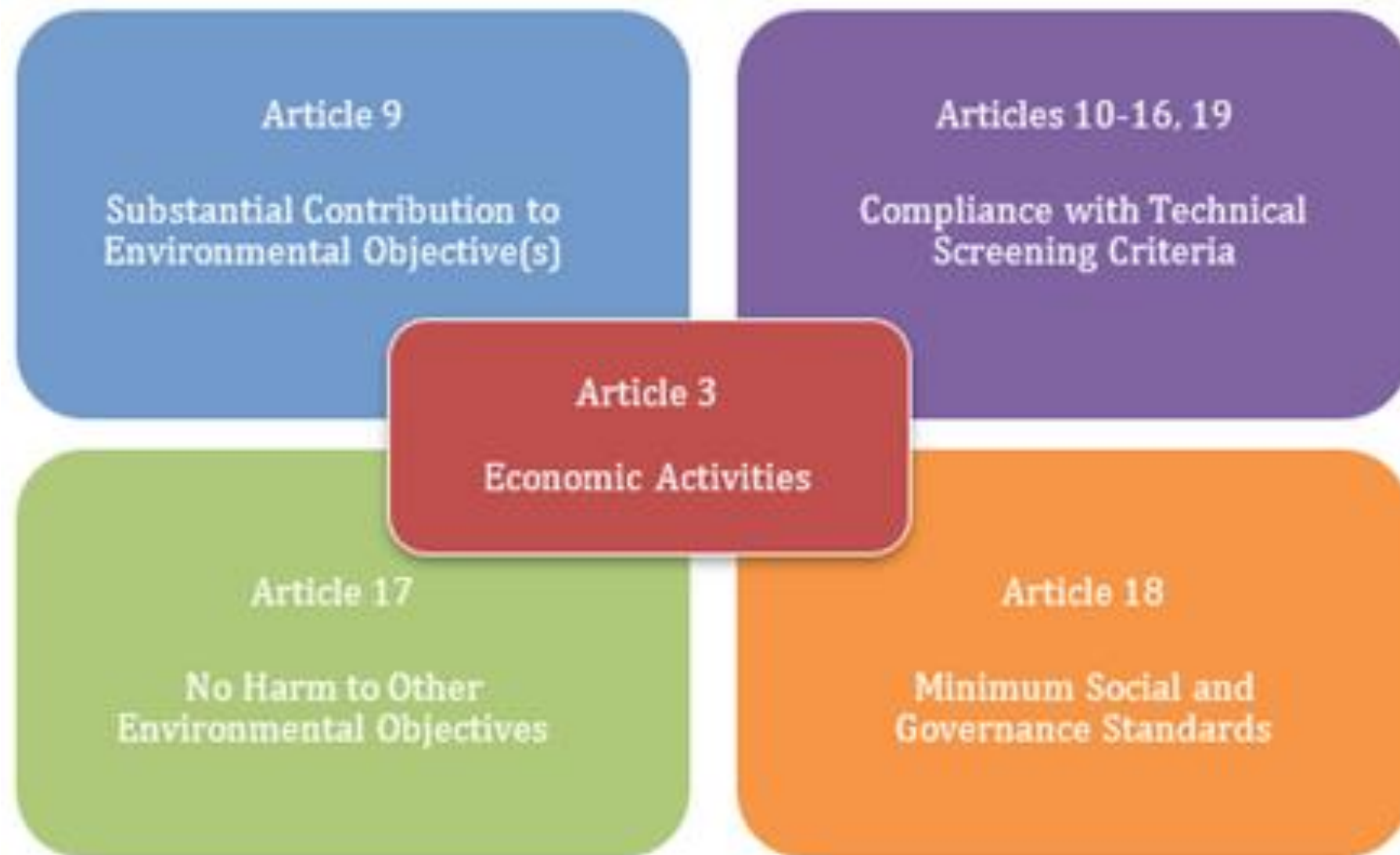


- The Non-Financial Reporting Directive (NFRD)
 - Requires large EU “public interest” corporates (including many financial services firms) to publish data on the impact their activities have on ESG factors.
- The Taxonomy Regulation
 - Introduces a sustainability classification system through which investment 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



#EUGreenDeal



CARBON BORDER ADJUSTMENT MECHANISM

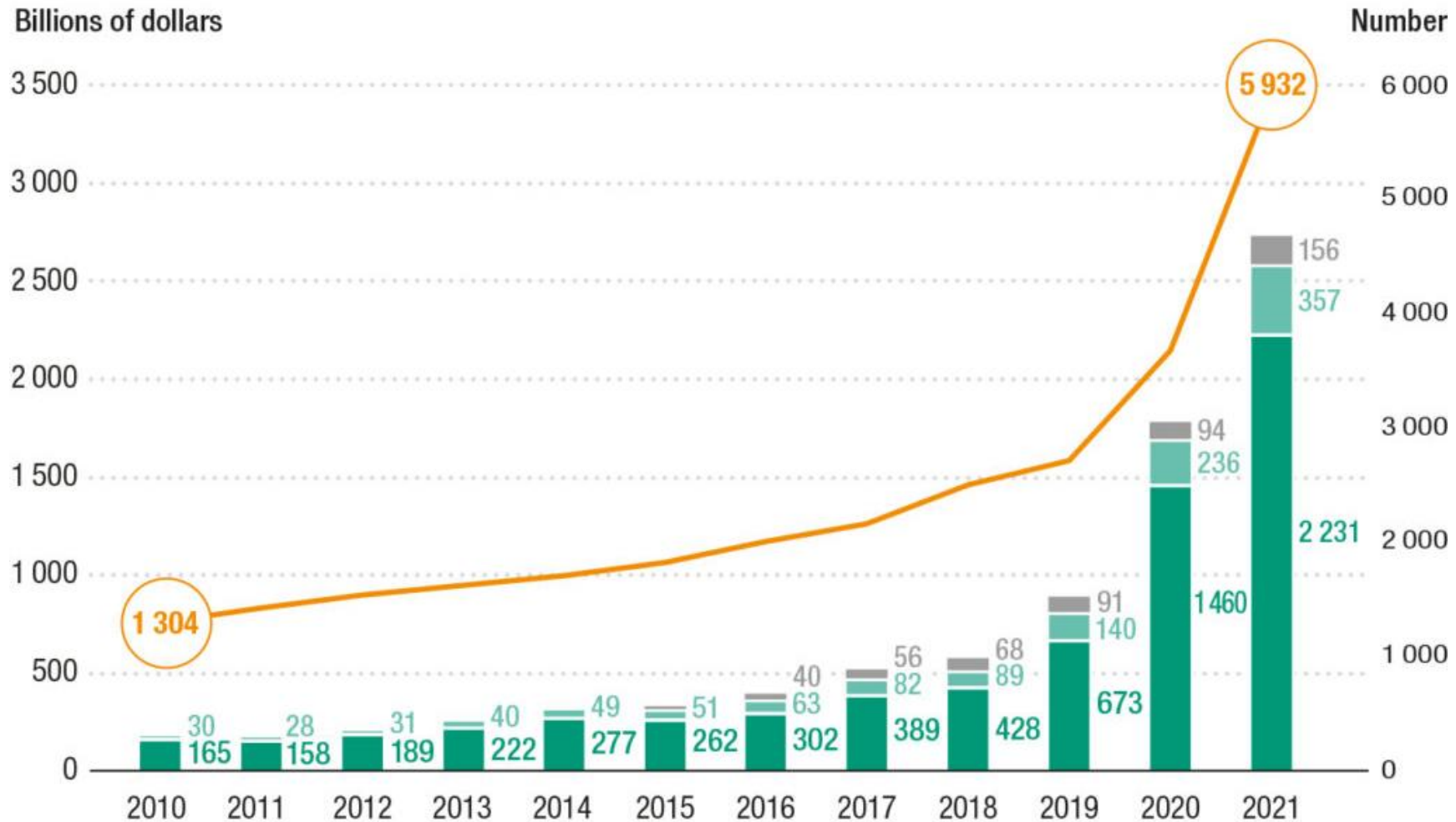


European
Commission

Markets are looking for ESG investment opportunities

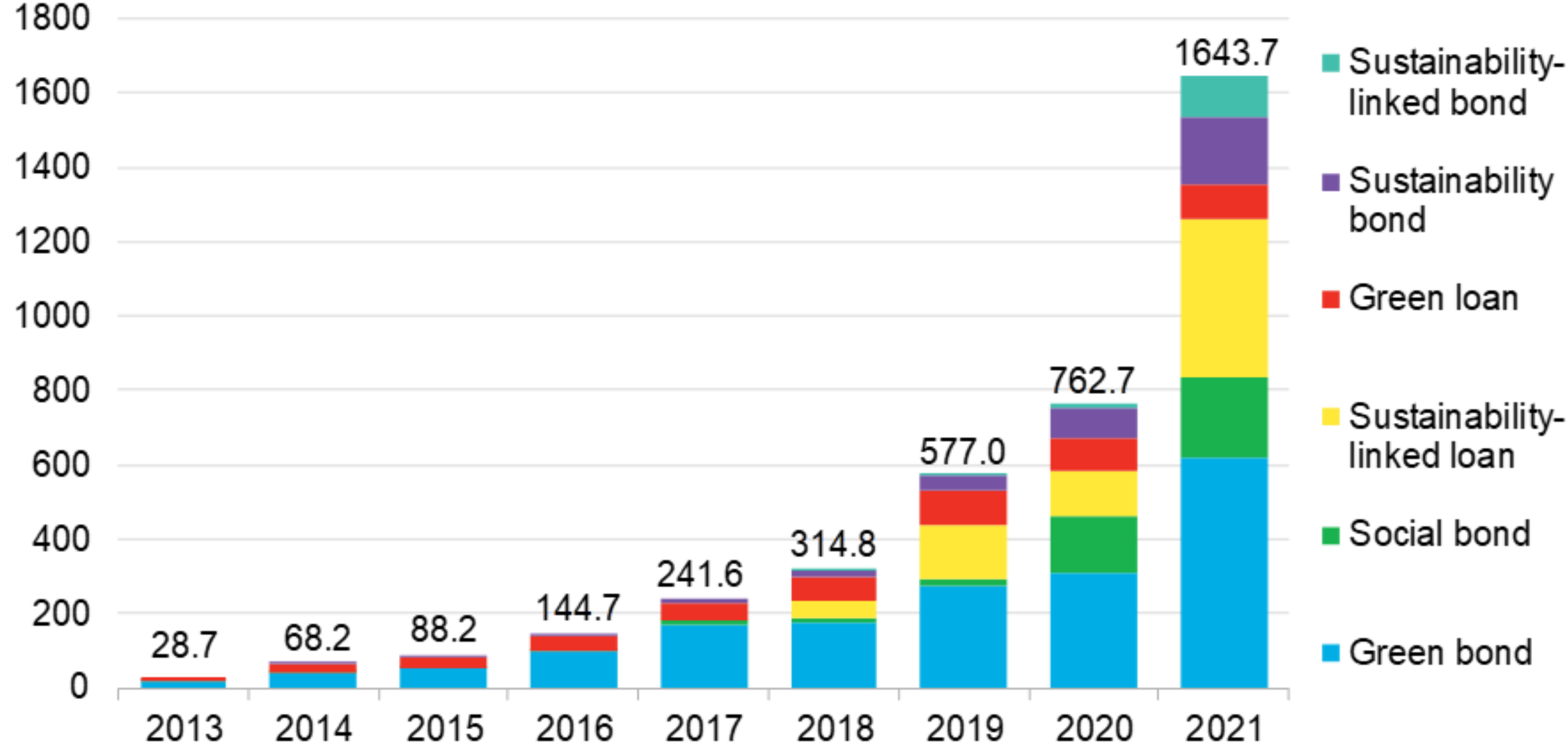
Sustainable funds and assets under management (bn US\$ and number)

■ Europe
 ■ United States
 ■ Rest of the world



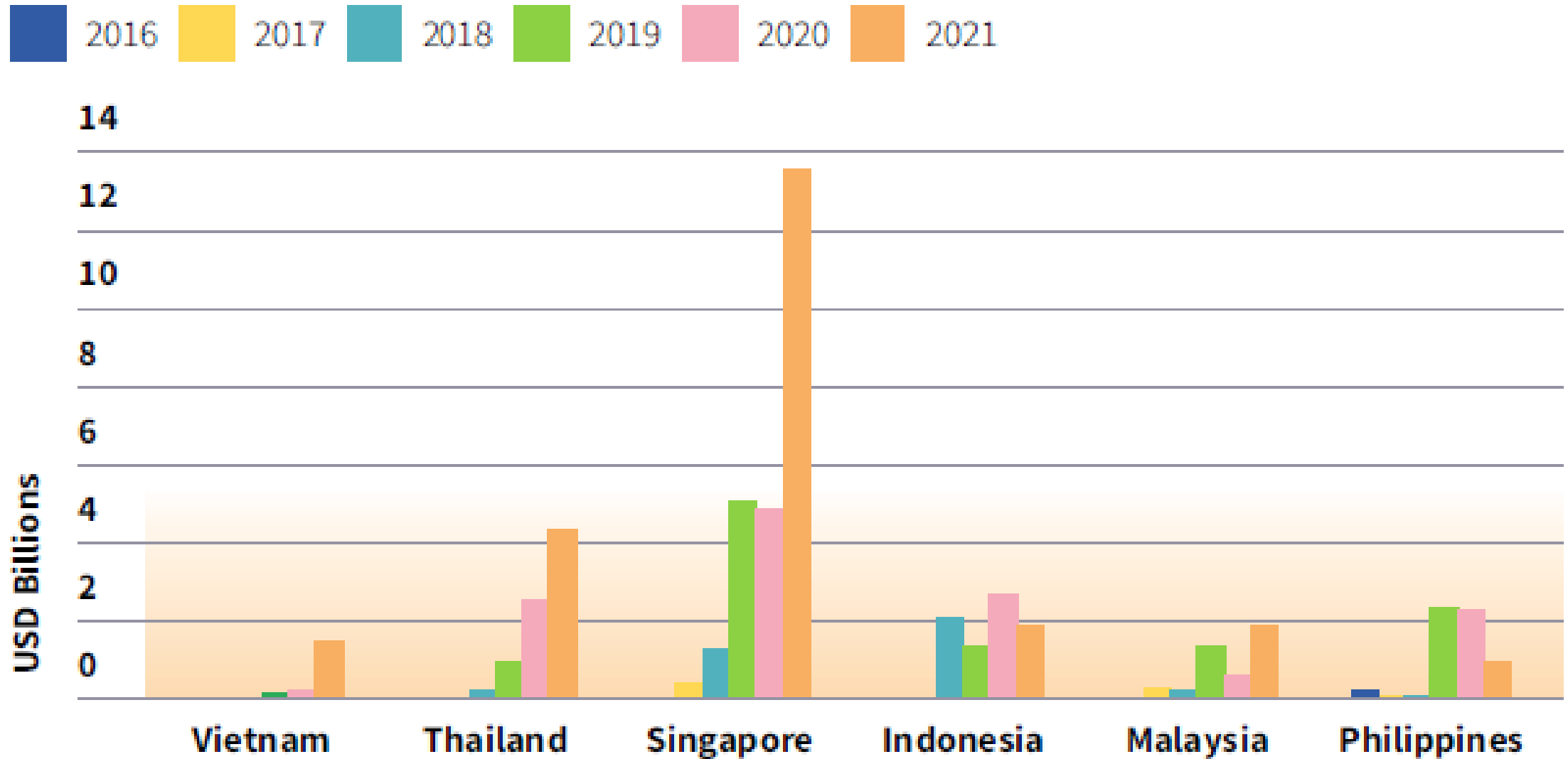
Source: UNCTAD (2022).

Annual sustainable debt issuance (US\$ bn), 2013-2021



Source: Bloomberg New Energy Finance (2022).

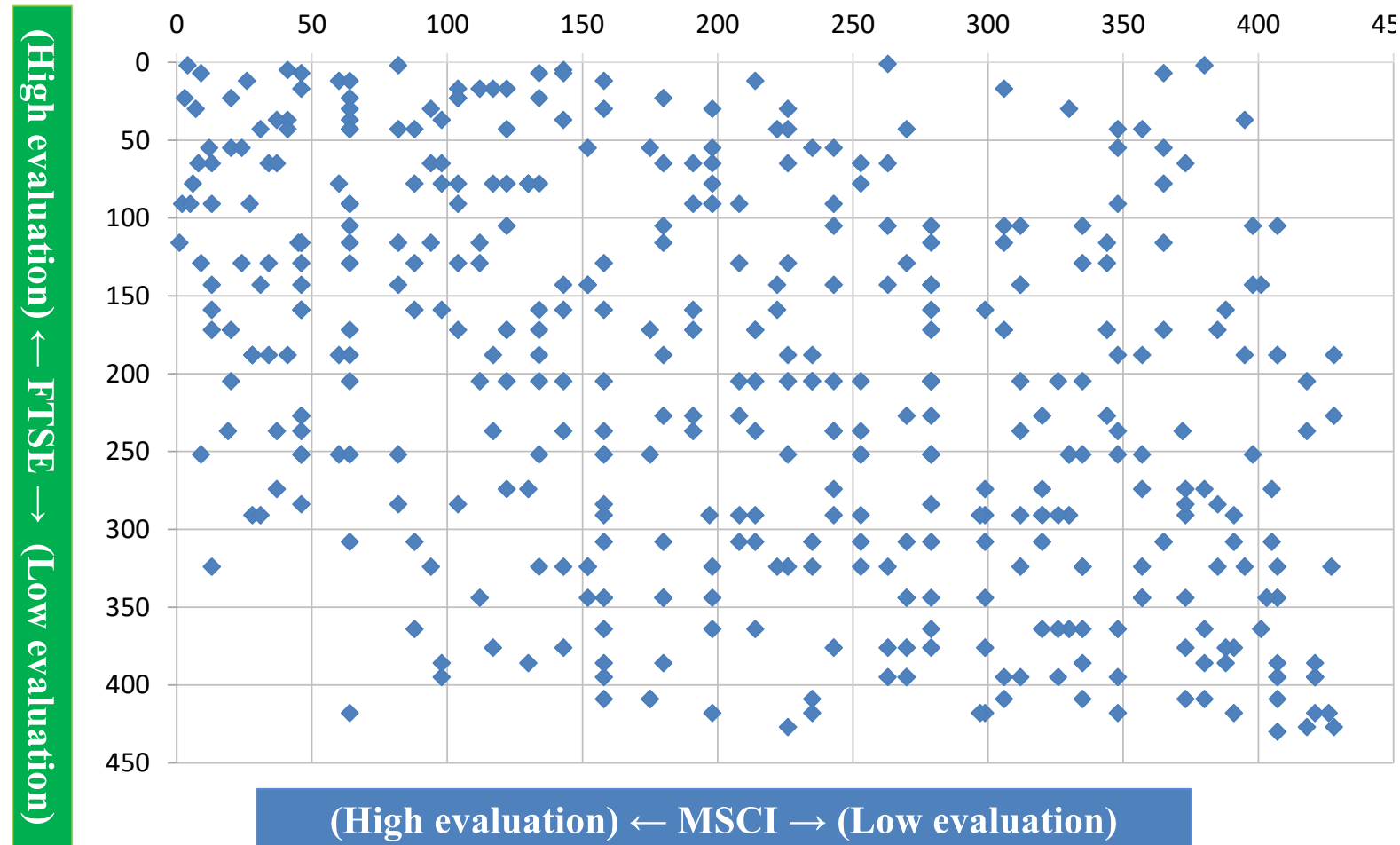
ASEAN cumulative green, social and sustainability bond/loan issuance by country



Source: CBI (2022).

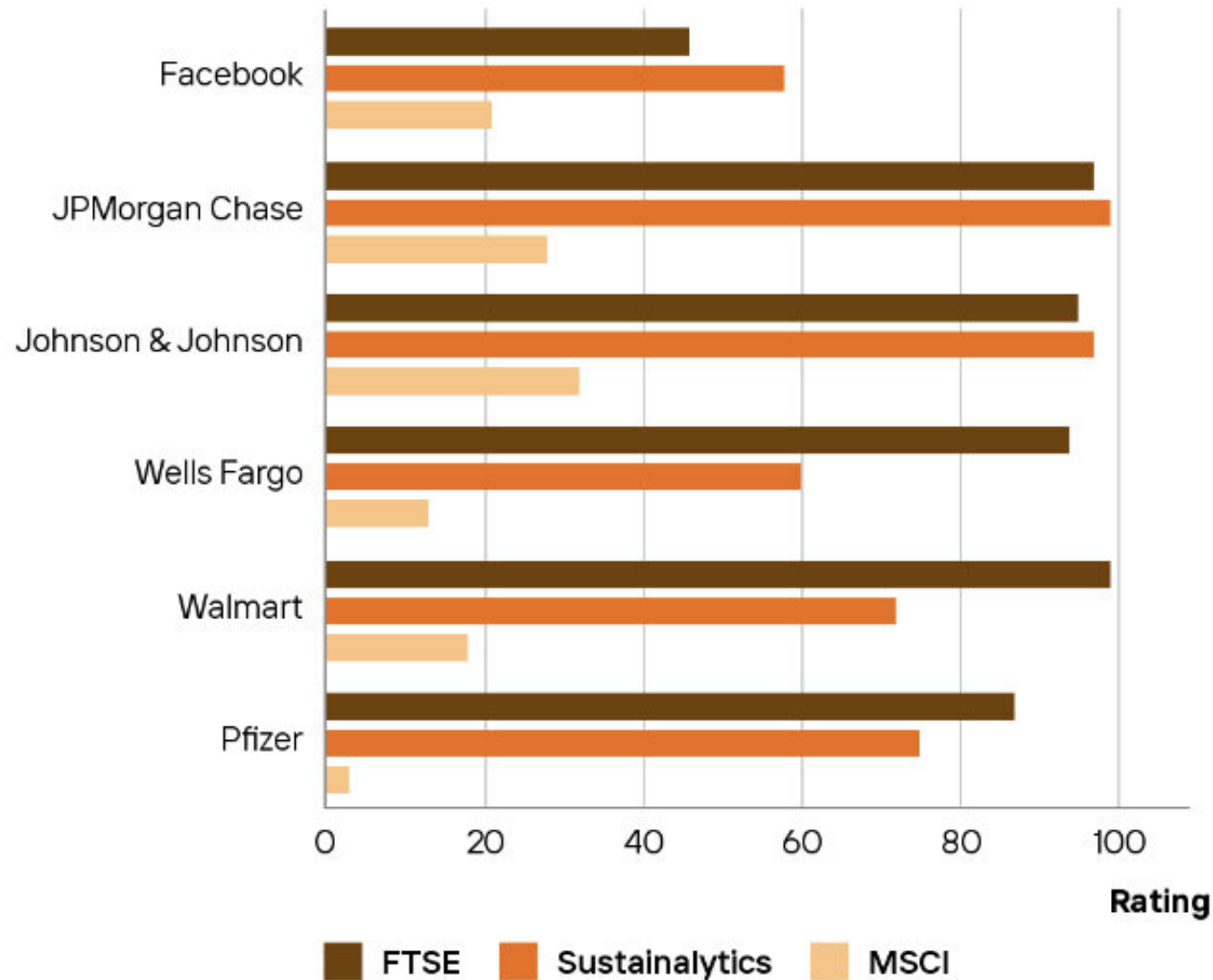
The pitfalls of ESG investing

Comparison of ESG evaluation by FTSE and MSCI



Notes: Universe for the analysis are 430 Japanese companies commonly surveyed FTSE and MSCI (as of July 2016);
 The plot of the diagram shows the ranking of ESG evaluation of each company (from 1st to 430th)

ESG ratings of select companies by different raters



Source: Adapted from Dimson et al. (2020).

Financial world greenwashing the public with deadly distraction in sustainable investing practices

“The financial services industry is duping the American public with its pro-environment, sustainable investing practices. This multitrillion dollar arena of socially conscious investing is being presented as something it’s not. In essence, Wall Street is greenwashing the economic system and, in the process, creating a deadly distraction. I should know; I was at the heart of it.

As the former chief investment officer of Sustainable Investing at BlackRock, the largest asset manager in the world with \$8.7 trillion in assets, I led the charge to incorporate environmental, social and governance (ESG) into our global investments. In fact, our messaging helped mainstream the concept that pursuing social good was also good for the bottom line. Sadly, that’s all it is, a hopeful idea. **In truth, sustainable investing boils down to little more than marketing hype, PR spin and disingenuous promises from the investment community.”**

Tariq Fancy, former Chief Investment Officer of Sustainable Investing at BlackRock

Source: Fancy (2021).

Special report | ESG investing

A broken system needs urgent repairs

The environmental, social and governance (ESG) approach to investment is broken. It needs to be streamlined and stripped of sanctimoniousness, argues Henry Tricks



Pete Ryan

**Conclusion: The need to adapt to
a new environment**

- Global de facto standards are emerging.
 - Standards are being set in major markets.
 - The EU sustainable finance regulation will have massive implications for the 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



@UliVolz

ขอขอบคุณ!

Don't hesitate to reach out!

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