Financial Stability in a Planetary Emergency
Webinar Questions and Answers

1. **As someone who campaigns globally to get finance out of fossil fuels, the global trend that we are seeing is that disclosure seems to be enough for a lot of private and even public financial institutions. While data is crucial to plot an effective course of action, what do you think are the next steps regulators, in particular, Central Banks, can take to move beyond just disclosure?**

   Effectively this is what we set out in our paper. Lots of evidence to suggest that disclosure is necessary but not enough to change behaviours - https://hbr.org/2021/05/overselling-sustainability-reporting
   Imperative that the disclosures are based on the science and are comprehensive to avoid cherry-picking the good bits. – *James Vaccaro, Executive Director, Climate Safe Lending Network*

2. **We hear all the time that governments and central banks need to take financial regulatory action, and the arguments are sound, as your report and proposals, point out. What do you see as the specific barriers that are stopping the implementation of these proposals?**

   Firstly, the nervousness that actions may have unintended negative consequences in the short-term for the economy. Despite evidence (for example) that green stimulus packages are far more effective (Stiglitz, Stern et al, 2020) the short-term bailouts for incumbent industries still appears to dominate relief packages. Secondly, legitimacy: do central banks have the credible authority to make judgments on climate science or nature? Here is where we suggest more formalised inter-agency cooperation. Thirdly, it is ultimately a matter of political will. Central banks only can operate within their mandate received by their finance ministries. – *James Vaccaro, Executive Director, Climate Safe Lending Network*

3. **Isn't the present-day ESG designation fairly ill defined? So, e.g., couldn't it be true that better performance in ESG investments actually indicates higher institutional capacity to conform to that ill-defined standard - rather than actual benefits from a climate or social benefit perspective? It seems inconsistent to both believe ESG is not a strong indicator today and that it is a positive sign that ESG investments have performed better/are more stable.**

   There are discrepancies and inconsistencies across ESG data. That is in part due to the metrics of trying to measure different aspects – e.g., the extent to which a company is shielded from ESG risks is different to the extent to which it is making a positive/negative contribution to those ESG risks/impacts in the world. Therefore, making assessments about ESG performance on average can be difficult since there are too many approaches under this broad category. – *James Vaccaro, Executive Director, Climate Safe Lending Network*

4. **What is your personal favourite proposal, James, and why?**

   I genuinely think they all have merit, but at different levels of urgency. It feels clear that proposals 2 & 4 (on net-zero banking regulation and capital risk weightings) are well paired and would have a lot of near-term impact. These are likely to be a priority. But the extension of mechanisms like the Community Reinvestment Act to diversify the financial system into green and resilient solutions is also imperative and could be very readily adapted in many countries in a recovery phase. There are too many areas which a one-size-fits-all approach to banking will not reach. – *James Vaccaro, Executive Director, Climate Safe Lending Network*

5. **Are there any central bankers who are earnest about applying monetary policy and other central bank tools to align bond markets with a 2-Degree scenario in time for 2030? This would seem to be a radical agenda. Are any of the Network for Greening the Financial System (NGFS) members, or other central banks thinking along these lines? Thanks for a compelling discussion and I think everyone will be very interested to see which central banks choose to show their cards in time for COP26 in November.**

   The new remit letter for the Bank of England's Monetary Policy Committee is a start, and the Bank is now committed to assess climate impacts of its bond purchases. – *Nick Robins, Professor-in-Practice, Grantham Research Institute on Climate Change and the Environment, The London School of Economics and Political Science*

6. **On a more general level, capitalism has experienced an era of deep financialization since the early 1970s onwards. This resulted in plenty of financial practices in both the financial and non-financial sectors that are detrimental on environmental, economic, and social grounds. So, my question is: Is there any reasonable chance to make the monetary and financial system truly a climate/ecological ally without de-financializing capitalism first (or in the meantime)?**

   My personal view is that it can only happen in parallel. It is only possible to de-financialise when at a grass-roots cultural level within financial institutions, individuals are more invested in primary relationships and the social / environmental outcomes of the enterprise they finance. The greater that this becomes visible as the ‘product’ to citizens and businesses (as the end-users of finance), the more it gains prominence within the ecosystem of banking. – *James Vaccaro, Executive Director, Climate Safe Lending Network*

   Government incentives and regulation can partially address these socially worthless outcomes. Shifting policies on EY adoption shifts investment outcomes and decisions. Changing investment incentives and regulation across the economy changes business decisions and strategies. This can be seen to happen in farming, in industrial production, in construction, in shipping in transport. When governments shift goals and green their industrial policies, actors alter their own plans. For example, the French adopted a forestry plan decades ago that paid landowners to reforest and husband their lands more carefully. As a result of this consistent policy French landowners were rewarded for real tangible investment, not for financial engineering and poor practices funded by debt. As a result, over one third of France is now covered by forests and increase of ten percent since the start of the policy. My point here is that government policy and regulation are key to setting expectations, affecting actions and environmental and net-zero outcomes. Markets will not and cannot do it alone, left unsupervised they will destroy common goals and our common land. – *Stuart Mackintosh, Executive Director, Group of Thirty*

7. **How do the panelists expect the US Fed. to start on this process? i.e. It has been held back under the Trump administration from acting on climate risk, so what sequence of actions do you expect them to take now that it is a policy priority?**

   It seems apparent that the Fed has invested a lot in underlying research, that it is now participating in the NGFS and has launched the Supervision Climate Committee. The steps in the next 6 months will be critical, but it is difficult to predict what will happen. – *James Vaccaro, Executive Director, Climate Safe Lending Network*

   At present the FRB is behind the curve ball on this and playing catch up. They have finally joined the NGFS. One Fed Governor has given 2-3 speeches and they are now at least discussing the subject. Up until Brainard's famous (but unremarkable) speech 18 months ago, no governor of the FRB had ever spoken about climate change. Today the FRB has a long way to go to demonstrate climate change risks are being effectively integrated into monetary and supervisory policies. However, Chair Jay Powell has made clear his intention to address climate change risks, and this shifts the messaging and will begin also affecting the priorities and goals of the FRB. I would say watch this space and expect more – ultimately there must be supervisory practice and regulatory changes – and the sooner the better. – *Stuart Mackintosh, Executive Director, Group of Thirty*

8. **Where is democracy in these technocratic policy making schemes? How to make citizens connected to and involved in the ecological transition then? Citizens' climate assemblies in Ireland, France etc. came up with very interesting and relevant proposals to carry on the transition. Therefore, is climate finance really too political, or in fact not political enough?**

   I keep on saying the same that we need to bring people and civil society into decision making. Citizen assemblies are fundamental, but we also need more people in the streets calling for divestment from stranded assets now. Why don't the youth on campuses across the world call for divestment of fossil fuels in the same way we called for divestment from South Africa – Apartheid? Note that most coal workers don't necessarily want to continue to work in coal extraction or the coal industry but want to maintain their communities, so we need to give them options and rejuvenate run down industrial centres. There are many new proposals across Europe that are showing great promise. This is the future. I agree, and thanks to the youth movements on climate, the emergency is now front and centre. We have been banging on about this at the Club of Rome for ages and no one of course wanted to declare an emergency. What I am not seeing is targeted campaigns on campuses for divestment at the level we saw during the anti-apartheid movement. – *Sandrine Dixson-Declève, Co-President, Club of Rome*

   You are right this cannot be only and predominantly a technocratic top-down exercise. This cannot be an imposed solution. Societies, communities, and individuals must understand the risks, understand the facts, and collectively come to decisions about how to act and plan for climate change risks and shifts in policies and practices. Indeed, if we make this only directive it will fail. People don't like to be told what to do. They will resist and reject the shift. However, conversely if we engage in science-based fact-based conversations, are clear about the risks and realities, then positions can change, and communities can come to understand the problem and help the design the solutions and act. National governments can and should set high level goals, net-zero plans. But it is cities, regions, communities and businesses that make these goals into on the ground reality. Getting to net-zero must be global and national, but it must be local, and community-based to work. Many communities are already acting; many more must do so, supported by governments, national, regional, and local. – *Stuart Mackintosh, Executive Director, Group of Thirty*

9. **So how do regulators of the financial sector have to respond in order to prevent systemic and catastrophic risks to the economy that from a timing perspective may be multiples of the average CEO or board member tenure, or ten business cycles from now?**

   That's a great question and speaks to the mandate of regulators being clarified to more fully incorporate financial stability for future generations. That should translate in much more critical reflection on discount rates in models. – *James Vaccaro, Executive Director, Climate Safe Lending Network*

   The first step is a commitment to net-zero by 2050, nationally, regionally, and by communities. These goals must be planned for with interim goals in 2030, 2035 and so on. Governments must set the glidepath and interim targets. These goals must be monitored, assessed, and adjusted if there is failure to hit targets. Regulatory requirements must shift progressively. Businesses can then adjust, respond, react, and take advantage of the new opportunities. Changing sentiments amongst regulators and via government policies pays immediate dividends and alters short-, medium-, and long-term strategies and related forward planning. I do not believe leading CEOs are oblivious to the requirement for a net-zero shift. To the contrary, I see that the firms that are first movers are being rewarded. Increasingly, those laggards that continue to invest in brown industries will be punished by investors, regulators, and their customers. Leading CEOs know this shift is not going to reverse and instead will accelerate. Leading CEOs are betting rightly the economic future is to be seized by speeding the transition and leading the shift. – *Stuart Mackintosh, Executive Director, Group of Thirty*