Just back from Sharm El Sheikh, the envoy for sustainable finance from the State Secretariat for International Finance, Christoph Baumann, spoke to finews.asia about how private-sector initiatives progressed during the two-week COP27 meeting.

Implementation was at the center of this year’s UN Climate Conference, both for countries that had previously committed to making their economies carbon neutral by 2050, as well as for financial institutions matching these net-zero commitments by signing up to the Glasgow Financial Alliance for Net Zero (GFANZ).

Although GFANZ has been well received in some markets, this has not been the case everywhere. In the run-up to the COP27 meeting, GFANZ members JPMorgan Chase, Bank of America, and Morgan Stanley said they might have to step out of the alliance because adhering to the membership’s net-zero targets, could cause them to breach antitrust laws in certain US
Christoph Baumann: «Net zero alliances are for the ambitious»
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jurisdictions.

«Ambitious Players»

Yet losing a couple of members is not a concern for Baumann.

«The alliance is there for ambitious players. It would be a real shame if the alliance watered down its goals just to ensure universal membership,» Baumann said.

Much of the hesitancy and uncertainty financial institutions struggle with when it comes to setting out a path to reach net zero can be explained by them being confined to a position where they can only support the transition of the real economy indirectly.

Because their carbon emissions are negligible, they are focused on monitoring and limiting their investments in and financing of carbon-emitting companies, emissions, referred to as «scope three.»

Direct Control

«That’s what makes it so complex for the financial industry to get to net zero. It’s different from, for example, a cement company, which can make a direct pledge because it has direct control over the majority of emissions it produces,» Baumann said.

Since signing up with the Glasgow Financial Alliance for Net Zero (GFANZ) last year, many financial institutions have been thinking about how to start reporting on transition plans and implementing their plans with verified science-based targets.

Better Data

Some of those ideas have poured into a project aiming to create a free-of-charge climate database covering company emissions and targets which will aid financial institutions with their transition plans, allowing non-governmental organizations (NGOs) and researchers to verify whether company commitments are credible.

The Net-Zero Data Public Utility platform’s first iteration is due by next year’s COP28 in Abu Dhabi, something that Baumann is excited about.

«It was one of the more important events or discussions surrounding this topic and Switzerland
played an important role as a member of the project’s steering committee,» he said.

Upcoming Regulation

Until now, Switzerland has had a self-regulating approach to sustainable finance. However, in light of accusations of greenwashing within the international financial community as well as continuous progress in the area, the Swiss Federal Council is pushing forward with stricter guidelines.

By the end of the year, it will lay down its sustainable finance strategy over the next four years in a report, which will include all the key measures giving companies guidance on achieving them.

One regulation on climate disclosures is directed at larger Swiss-listed firms and financial institutions and will focus strongly on transition plans and scope three targets. «This is something which really puts Switzerland at the forefront of nations when it comes to climate disclosures,» Baumann said.

Transparency and Credibility

For the State Secretary for International Finance (SIF) it is important that if a financial institution makes a net-zero pledge, it is transparent and credible about how it intends to implement this.

The credibility of financial institutions can be looked at from two angles, Baumann said. The approach taken by some NGOs is bottom-up. From this perspective, any investment into a new fossil fuel project by a financial institution that has pledged to transition to net zero appears as not credible.

However, the SIF keeps in mind that financial institutions have almost thirty years to achieve the transition. «They don't need to be perfectly emissions-free now. They need to transition to net zero by 2050,» Baumann said.

Evolving Field

The reasoning is that if the company’s transition plan has been externally verified as being science-based and progress along the transition plan is credible, then «there is no need to micromanage each investment,» Baumann said.
Overall, the «overwhelming majority of the financial sector is supportive of the transition to net zero,» he said, but achieving this is a complex undertaking, especially because «the standards and expectations that investors have, change over time.»