

A Mandatory Common Language for Climate Disclosure is Crucial to the Success of the Net-Zero Revolution

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*Remarks as prepared for delivery***

I am honored to join you today to discuss the role of capital in a net-zero economy.

Let me begin with a question.

What will be the largest companies in the world in 2050, 30 years from now?

Well, we obviously don't know.

We do know that today Apple, Amazon, Facebook and Taiwan Semiconductor are among the largest global companies. Giants in a digital revolution that has changed all aspects of our lives.

Yet we should recall that of the 10 largest publicly listed companies today, seven did not even exist 30 years ago.

We meet here today at the dawn of another revolution. Investors are asking which companies will thrive or die in the next 30 years. As we drive emissions to net-zero, assets will be repriced. Industries will be unrecognizable. This is the Net-Zero Revolution.

With more than \$14.5 trillion benchmarked to MSCI's indexes, plus market leadership in ESG data and analytics, we are asked by investors every day how to navigate to a low-carbon economy. And we are asked by thousands of companies why investors are evaluating their climate strategies.

I'd like to share three things we see, at this nexus between investors and companies.

First. What investors are holding in their portfolios today won't work in 2050.

There are nearly 9,300 publicly listed companies in 50 countries in MSCI's broadest market index (MSCI All Country Investable Market Index – MSCI ACWI IMI), which represents the global equity universe. These companies are putting carbon into the atmosphere at a rate that takes the world to more than 3°C warmer by the end of the century.

By our calculation, over 90% of all listed companies in the world are not on track to reduce their emissions for keeping global warming to 1.5°C.

Now, how can an investor reduce carbon intensity in their portfolio, if companies in the portfolio aren't doing so?

They have two choices: influence or reallocate.

As shareholders, investors must influence and put pressure on company boards and management to transform their business models.

Investors need every company, on average, to reduce its carbon intensity by 10% each year until 2050, to keep us under a 1.5°C rise. That won't be easy.

We have found that, historically, fewer than 1 in 4 companies have managed to reduce their emissions by quite this much.

Or, reallocate. Investors can move more of their capital to the decarbonizing companies and away from those that are moving too slowly or not acting at all.

There is a hard limit though. Remember, 90% of companies are running "too hot," meaning that their emissions trajectories would take us beyond a 1.5 to 2°C rise in temperature. These "too hot" companies are no longer investable options for a growing number of institutional investors.

Yet with their large pools of capital, these investors cannot only invest in a smaller and smaller set of companies.

So, what the world needs are new companies and new businesses to invest in.

We need the tech companies of the future. The innovators of the net-zero revolution.

Second. The net-zero revolution will produce some spectacular winners and not just losers.

A moment ago, I told you some of the largest companies in the world today.

In 1995, at the dawn of the internet, the largest companies included General Electric, Exxon Mobil, Royal Dutch Petroleum and Philip Morris. Not one was a technology company.

Back then, the market value of the tech sector was about 6% of the equity universe. It's roughly 20% today.

Now, at the dawn of the net-zero revolution, we estimate that fewer than 3% of the companies in MSCI's index (MSCI ACWI IMI) earn a majority of their revenues from clean energy or low-carbon technologies.

The net-zero revolution begins with companies helping to transform how the world produces and consumes energy. But in time, the net-zero revolution won't just be about displacing traditional fossil-fuel businesses with renewable energy companies.

It's much bigger than that.

Just as the digital revolution has reached far beyond the tech sectors to impact every corner of our economy, the net-zero revolution is not limited to the energy sector. This revolution will touch every company in the world sooner than they might see it coming.

Experience shows us that identifying the winners of the future is not straightforward. For every Amazon, dozens if not hundreds of other e-commerce companies have fallen by the wayside. We tend to forget about the many social media sites that died off in the wake of Facebook.

The push for sustainability will likewise see its share of failures. Green startups are still startups. Many companies competing to invent low-carbon solutions will not succeed. Yet some, including those that may not even exist today, could emerge as titans of a net-zero world.

Third. So how can investors investigate the future from the present?

In part, they use indexes.

Think of a basket of companies. An index measures the performance of that basket. If that basket has every company in the world in it, then you can weigh the emissions of the world's companies and you can get a temperature reading which tells you that the world's companies would take us to over 3°C warmer.

Now, imagine you're at the supermarket. You can choose which companies to put into your shopping basket. Next to the prices, you see emissions, or a conversion of emissions to a temperature. You see how every company you put into your shopping basket adds to the basket's emissions and changes the basket's temperature. You can weigh up whether you have a 1.5°C or 3°C shopping basket.

Over the next three decades, if companies succeed in decarbonizing, an index like MSCI's index that measures the basket containing all the world's publicly listed companies, the MSCI All Country World Index (MSCI ACWI IMI), will become a low-carbon index, one that indicates a lower and lower temperature.

But between now and then, investors are using different indexes that integrate their climate concerns. They are creating alternative shopping baskets of what they consider to be healthier choices – to take their investments on a faster glide path toward that convergence.

What do investors need, to take them into the revolution?

Our current market infrastructure has evolved to facilitate capital flows that support a carbon-intensive economy. What we need now is a market infrastructure that's oriented differently, one that supports sustainability.

A critical component are new types of measurements that show how vulnerable or how resilient every asset is to climate change. Measurements that can be used as a common language among market participants. Then we can value the emerging risks and opportunities in the new economy.

Yet these new types of measurements require data that we don't have today. As we look forward to what COP26 could achieve, we urge policymakers and financial regulators of the G20, and the rest of the world, to introduce mandatory climate-related disclosures and agree on international standards of disclosure.

But we caution regulators and standard-setters to not confuse what should be disclosed by companies with what can and should be measured by analysts, investors and regulators. Instead of asking companies to each report on their own assessments of climate risk, which will

produce inconsistent data, ask them for the basic ingredients, which they can all disclose immediately.

Right now, we lack data on companies' full emissions throughout their value chain and we critically lack disclosures on where their operations are located. These are the absolute minimum inputs into any climate-risk analysis.

Ask companies for the inputs, and the market will converge on the most decision-useful outputs. This is how we will collectively construct the pipes for a new market infrastructure.

MSCI will play its part. I am pleased to announce that MSCI will join with the Glasgow Financial Alliance for Net Zero to spearhead a Net Zero Financial Service Providers Alliance through the Race to Zero campaign. This new alliance will galvanize the world's index and data providers, credit ratings agencies and accounting firms to lay the tracks that can take investors and companies to a net-zero world.

When we look back on 2021 decades from now, we can say that this is when the world leaned in to its low-carbon future. When we entered an unprecedented era of enterprise and collaboration to make the net-zero revolution a reality.

Thank you.

-ENDS-

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