# The G20 Presidency programme on Sustainable Finance

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OMFIF-Sustainable Policy Institute symposium

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- Let me start by thanking David Marsh for his kind invitation to this symposium. In these brief remarks I will describe the work that we are carrying out in the G20, under the Italian Presidency, on sustainable finance.

- The urgency of the problem of climate change and its disastrous consequences are plain for all to see. The images of last July's floods and the more than two hundred deaths in Germany and Belgium are still vividly etched on our memories. And this was only one episode in a long series of deadly extreme weather events: from the deep freeze and widespread power outages in Texas in February to the severe heatwaves and wildfires that hit Southern Europe in August, to the September deaths and damages caused by hurricane Ida on the North-East coast of the US. It is by no means a hyperbole to say that the harsh effects of climate change are felt on Earth almost every day.

- Arresting climate change requires achieving net-zero greenhouse gas emissions on a global scale over the next few decades. It is an urgent task: delaying action could be extremely costly and may prove to be ineffective. Yet, despite the fact that COP26 is approaching, in spite of widespread agreement on the targets that must be achieved by mid-century, individual countries' actual commitment to diminishing emissions has been unsatisfactory. The current UN Nationally Determined Contributions of all the 191 parties taken together imply for 2030 a 16 per cent increase in global greenhouse gas emissions compared to 2010 levels, against the 45 per cent reduction that would be needed. A successful transition requires, therefore, a stronger effort and closer global cooperation.

### The role of the financial system in supporting the transition

- Designing appropriate climate and energy policies is primarily the task of national governments. But the difficulty of the task and the enormity of what is at stake – our very survival as a species – warrant the full commitment of all citizens at a global level. Finance, in particular, can go a long way in helping and reinforcing the process of reducing emissions, channelling more resources towards sustainable investments.

- In recent years, sustainable finance has grown significantly and today represents a market trend in its own right. Green investments are usually carried out through different kinds of financial strategies, typically based on "sustainability metrics". The most widespread of these are based on ESG scores, which are attributed by rating agencies to a broad range of financial instruments – equities, corporate bonds, investment funds and market indices – and are intended to assess how a company manages its own operations, minimising the negative impact on the environment and society, while adopting a well-defined set of rules defining rights, responsibilities and expectations between different stakeholders.

- Notwithstanding its widespread use, ESG scores suffer from several problems. Currently, there are neither widely accepted rules for ESG data disclosure by individual firms nor agreed auditing standards to verify the reported data. Moreover, there are intrinsic difficulties in deciding which indicators are relevant in assigning an ESG score, especially when compared to financial aggregates, where the key indicators, such as revenues, costs, earnings and cash flows, are widely available and are all auditable items.

- The agencies providing ESG scores rely heavily on voluntary disclosure by firms and on subjective methodologies to select, assess and weigh up individual indicators. As a result, ESG scores of individual firms differ greatly across agencies if compared, for example, with credit ratings. While the three main data providers' credit ratings assigned to the major euro area listed companies show a correlation of above 90 per cent, the correlation between ESG scores, on the other hand, is much lower at between 20 and 60 per cent (a range that widened last year with respect to 2019).

- The fragility of these indicators and their lack of transparency increases the risk of "greenwashing". The fact that there is no obligation to oversee firms' non-financial communications, the absence of standardised indicators and the prevalence of qualitative data leave room for firms to attempt to alter the external perception of their sustainability in order to attract funds. Recent news on malpractices regarding ESG strategies confirm that these risks are concrete. Some estimates suggest that 55 per cent of funds labelled as "low carbon", "fossil-fuel free" and "green energy" have exaggerated their claims and more than 70 per cent of funds promising ESG goals fell short of their targets.

- Minimising these risks requires high-quality, granular, and internationally comparable data. Among the work aimed at improving sustainability disclosure, we should mention the important initiative of the International Financial Reporting Standards in establishing an International Sustainability Standards Board and a Technical Readiness Working Group. We look forward to their recommendations for the definition of a sustainability (initially climate-focussed) reporting standard. Strategic advice will be provided by the Eminent Persons Group chaired by Jean-Claude Trichet, which will also attempt to foster coordination among different jurisdictions.

**The goal of the G20: better data and disclosure**

- Let me now turn to the work of the Italian Presidency of the G20, articulated around the three pillars of People, Planet and Prosperity, which has made climate change one of its key priorities. In particular, the cornerstone of the Finance Track is the redirection of financial flows to support the transition towards a low-carbon and more sustainable economy and society.

- Our first step has been to revive the Sustainable Finance Study Group, asking the United States and China – the two main economies and the two largest polluters – to co-chair it. The Group has now been elevated to a permanent status (and renamed accordingly as the "Sustainable Finance Working Group"), as the transition towards net-zero greenhouse-gas emissions will remain a priority for the G20 for many years to come.

- The Group has made rapid progress, taking several initiatives to promote sustainable finance. Following its latest meeting in September, it has finalised two "deliverables": a Synthesis Report and the G20 Sustainable Finance Roadmap. Both documents result from extensive and transparent consultations and will be instrumental for years to come in addressing the urgencies on this topic.

- The Synthesis report builds on input papers submitted by international organisations on three priority areas: (*i*) strengthening comparability and interoperability of approaches to align investments to sustainability goals; (*ii*) overcoming informational challenges by improving reporting and disclosure; and (*iii*) enhancing the role of international financial institutions in supporting the goals of the Paris Agreement and of the United Nations Agenda 2030. For each priority, the report identifies the main challenges and puts forward a set of recommendations to overcome them.

- The Roadmap is shaped by the Synthesis report to provide a multi-year agenda, setting a list of actions that should be implemented by G20 members in order to scale up sustainable finance. Over the coming years, the Roadmap will be able to be adapted to best reflect the priorities set by future G20 Presidencies. Many countries, for example, would like to see its future focus widened to encompass biodiversity.

- The Italian Presidency has also taken other initiatives to enhance the G20 leadership on the mobilisation of private finance. Let me mention three of them: the request to the IMF and the international organisations of the Interagency Group on Economic and Financial Statistics to consider climate-related data needs in preparing a new Data Gap Initiative; the reports committed to, and already delivered by, the Financial Stability Board to both enhance disclosures and address data gaps on climate-related financial risks; the proposal to examine how to scale-up digital finance to promote sustainable growth.

- The demand for more and better data to measure the impact of climate change on the economy and the financial system is strong. The G20 Concept note, delivered for the July Meeting of Finance Ministers and Central Bank Governors, envisages the preparation of a bold and urgent coordinated action plan at the international level to further develop existing methodologies and identify all the possible information sources to gather the necessary data. Information should include, in particular, more timely and high-frequency data on greenhouse gas emissions due to economic activities, better measurement of environmental risks, taking into account the possibility of natural disasters, more and improved data on climate-related expenditures and transfers, and more reliable indicators of "green finance". G20 Ministers and Governors are now looking forward to a detailed work plan that will be prepared by the Interagency Group on Economic and Financial Statistics, in consultation with the G20 countries, and that will be submitted to the G20 under the next Presidency.

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- To conclude, sustainable finance has grown remarkably in just a few years, to the point that one could wonder whether this growth is itself "sustainable". On one hand, scaling up funding for the transition to net-zero requires even more green equity and green bonds. On the other hand, containing the risk of greenwashing is essential: it requires more data and better tools to identify, assess and compare sustainability profiles. While new standards are currently being drafted in many countries and regions, preserving international comparability is key: their fragmentation across jurisdictions would be costly for companies and confusing for investors, and could end up being counterproductive.

- The G20 sustainable finance agenda is squarely focused on these issues. It is benefiting from the active involvement of finance ministers, central banks, bank supervisors and financial stability authorities, which are positively contributing to enhance market participants' awareness of the goal of a rapid and smooth transition to net zero.

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