



E3G

The G7's opportunity for advancing toward a net-zero finance sector

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Introduction

A net-zero financial system, which aligns with and enables transition to net-zero in the real economy, will be essential to delivering the Paris Agreement. The UK G7 has an opportunity to accelerate the shift to a dynamic net-zero finance sector.

Background

G7 countries have all made commitments to achieve net-zero emissions by mid-century, which has created a clear signal for markets. Market momentum is also growing. Individual financial firms which have made net-zero announcements include Allianz, HSBC, BlackRock, Nordea, Aviva, Morgan Stanley and Santander. The UN-convened Net Zero Asset Owner Alliance is joined by new initiatives such as the Net Zero Asset Manager Initiative. The Glasgow Financial Alliance for Net-Zero is now bringing together leading initiatives under the COP26 Race to Zero.

This positive trend shows strong appetite from financial institutions to transition to a net-zero finance sector. To make this ambition a reality, there is a clear enabling role for governments and policymakers.

Priority Actions for the UK G7

Harnessing the historic wave of private sector momentum, the G7 can accelerate the financial sector's shift to net-zero with three key steps:

- **Include in the Leaders Communiqué a G7 commitment to cooperate to develop a net-zero financial sector.** This would send an important high-level signal to markets.
- **Call on financial institutions to join, by COP26, the Glasgow Financial Alliance for Net-Zero.** This would mean firms to set robust voluntary net-zero commitments, with targets for net-zero and near-term decarbonization in transition plans, as part of TCFD disclosures; and commit "capital in principle" for financing national net-zero transitions, notably in developing countries per COP26 strategy.
- **Create a G7 Net-Zero Financial System Taskforce,** to develop recommendations on the public policy agenda for building a strong net-zero finance system, and publish a report in 2022. The Taskforce, comprising officials and experts from each G7 country, would then meet at each subsequent G7 meeting until 2030 to report on policies and progress toward a net-zero finance system.

Key areas for policy

Supporting the financial sector's transition to net zero will require action on several fronts from policymakers. These priority policy

areas should be acknowledged by the G7 FMCBG and referenced in the mandate for a new Net Zero Financial System Taskforce.

→ **Requiring climate disclosures, net-zero targets and transition plans:** Disclosures by real economy and financial firms are crucial for net-zero finance. The rest of the G7 should follow the UK's example and commit to make TCFD mandatory. Net-zero targets and transition plans should be made mandatory for financial institutions, including strategies and methodologies for alignment with the Paris Agreement, and near-term decarbonization pathways by 2030.

→ **Guiding and clarifying standards for net-zero in the financial sector:** Technical standards are proliferating, which may lead to confusion for the sector. There is a clear facilitating role for regulators to provide guidance and set expectations, for example on science-based net-zero target setting, on methodologies for 'Scope 3', on interim target-setting, and on the role of carbon offsets. G7 financial regulators should work together to create common standards.

→ **Making net-zero investable through public policy and public finance.** G7 governments should commit to creating market incentives for private finance to scale up investment in a net-zero economy. For example: setting national financing strategies for transition; creating or reforming public finance institutions with a net zero mandate;

using monetary and fiscal tools to create incentives for investing in economic transformation.

→ **Fitting net-zero in the context of natural capital:** The G7's approach to net-zero should ensure overall environmental sustainability by using wider nature-based approaches. The G7 should build on the priorities identified in the Dasgupta Review and work toward mandating nature-based reporting per recommendations of the Taskforce for Nature-Related Financial Disclosure (TNFD).

Conclusion

Swift transition to a net-zero financial system is essential to meeting the Paris Agreement goals. The 2021 G7 can build upon the historic wave of voluntary net-zero commitments toward a net-zero finance sector, by pursuing three simple but powerful actions:

1. Leaders' commitment to a net-zero finance sector;
2. Joint call for net-zero commitments by financial institutions by COP26;
3. A new G7 Net-Zero Financial Sector Taskforce.