Call to Action to Ensure Transition to a Net Zero and Nature Positive World

We, leading international Non-Governmental Organisations (NGOs), think tanks, etc., have come together to call on central banks and financial supervisors around the world to act now as precautionary agents and utilize every available avenue to tackle the twin environmental crisis of climate change and nature loss.

Monetary policy and financial regulation instruments need to mitigate the significant financial and price instability that is caused by biodiversity loss and global warming and will continue to increase if no action is taken now.
The next few years are crucial. There is no alternative but to do whatever it takes to mitigate the systemic risks posed by biodiversity and ecosystem loss. The G20 meetings in July and October and this year's Conferences of the Parties to the Conventions on Biological Diversity (COP15) and on Climate (COP27), offer great opportunities for central bankers and financial supervisors to announce their commitment and take decisive action this year. WWF will annually monitor the progress of central banks and financial supervisors via its SUSREG Tracker .

WHAT STEPS NEED AND CAN BE TAKEN NOW

1.5°C

Central banks and financial regulators globally need to adopt two new nominal anchors for their mandates – 1.5 C and nature positive by 2050.

Central banks, financial regulators and supervisors need to lead by example and provide necessary clarity and forward guidance to financial markets actors by publishing their own clear and detailed transition plan (with clear quantifiable climate and biodiversity goals for 2025, 2030, and 2050 covering all central banking, financial regulation, and supervision activities), and request all regulated financial institutions to publish yearly, detailed transition plans regarding all their investment, lending and underwriting practices.

Central bank and financial regulation time horizons must be extended to 10-30 years to ensure that short term financial flows that may have major long-term consequences for losses and instability are treated as far higher risk.

Financial institutions investing, underwriting or lending to sectors, companies or economic activities that are considered as 'always environmentally harmful' (see list at the end of the document) must face:

- Higher regulatory capital requirements
- Tighter liquidity requirements
- Capital add-ons for concentration risk if they fail to reduce their exposure urgently
- Higher systemic risk buffers according to their exposure to environmentally harmful assets and assets in particularly vulnerable regions

Central banks should stop investing (e.g. asset purchase programmes) and adapt their collateral frameworks for economic activities, companies and sub-sectors that are cosidered 'always environmentally harmful'.

Central banks, financial regulators and supervisors should be forceful stewards, and request governments to take more decisive action to tackle the twin environmental crisis (e.g. fiscal policies that support fair transition).

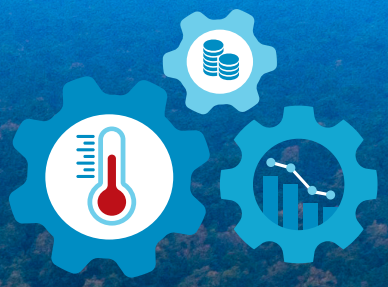
THE PROBLEM AND WHY CURRENT POLICIES ARE NOT ENOUGH

The Dasgupta Review points out that essentially all economic activities depend on nature. But nature is being lost at unprecedented rates, and with this loss, come serious economic impacts for society and business.

Current rates of nature loss could cost the global economy $2.7 trillion annually by 2030. The world is also still on track for 2 to 3 degrees °C warming, rather than the maximum 1.5 degrees °C of warming targeted in the Paris Agreement. Despite a range of welcome pledges and action, including at COP26, to tackle the twin crises of nature loss and climate change, biodiversity decline continues at alarming rates and emissions of greenhouse gases (GHGs) continue to rise.

Urgent action is required to halt nature loss by 2030 and fully restore ecosystems by 2050. The world also needs to ensure GHG emissions reach net zero by 2050, peaking 2025 and falling by about half by 2030, in order to limit warming to 1.5 degrees °C and avoid the worst impacts on people and ecosystems.

At the moment, banks, asset managers, insurers and others within the financial system are still investing in, lending to, insuring and supporting industries and sectors that cause huge economic losses and instability without penalty. There is no clear signal from financial and price stability stewards that this activity must urgently be phased down towards zero.



CENTRAL BANKS AND FINANCIAL SUPERVISORS SHOULD USE A PRECAUTIONARY APPROACH, WORK PROACTIVELY AND DECISIVELY TO PREVENT FUTURE RISKS, AS THIS IS WITHIN THEIR REMITS OF THEIR MANDATES, FOCUSING ON THE MOST ENVIRONMENTALLY HARMFUL BUSINESSES & SECTORS.

CENTRAL BANKS AND FINANCIAL SUPERVISORS SHOULD ACT NOW AND USE EVERY AVAILABLE AVENUE TO REDUCE GREENHOUSE GAS EMISSIONS AND RECOVER BIODIVERSITY - AND STOP DISTINGUISHING BETWEEN RISKS AND IMPACTS, AS TODAYS IMPACTS ARE TOMORROW'S RISKS.

There are other precedents! Central banks took center stage when it came to saving our financial system and economy during the Financial Crisis 2007-2009. Since then, they have repeatedly acted under situations characterized by high uncertainty, moving swiftly, with incomplete information, using all available tools and instruments, and advocated for large interventions, rather than for small ones. Given the magnitude of the climate and biodiversity risks that we face – many of which are already being realized in the form of increased floods, droughts, heatwaves, and fires - it makes sense to apply a similar approach. Central bankers and financial supervisors need to understand that we are already in the midst of a twin environmental crisis that requires swift, large-scale and coordinated action. Conversely, failing to pursue active intervention in the face of environmental crisis is itself a policy choice that carries risks.

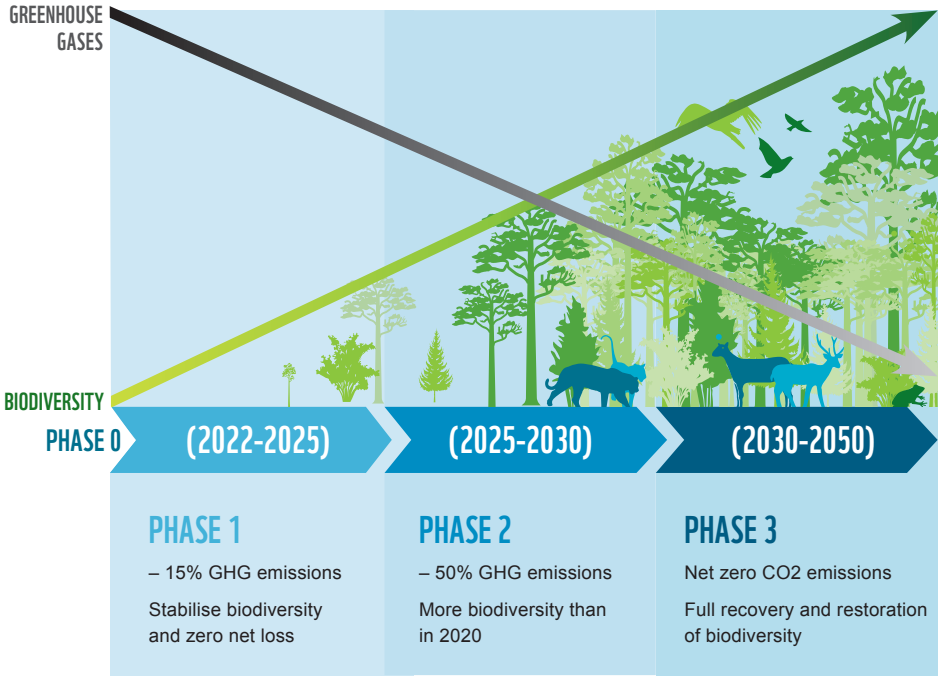
ACTION IS WITHIN THE EXISTING MANDATES OF CENTRAL BANKS AND FINANCIAL SUPERVISORS

There is overwhelming evidence accepted by governments globally that climate change and biodiversity loss will cause increasing financial losses and financial and economic instability.

The climate and biodiversity crises will also have a huge negative impact on global supply chains and production, leading to major increases in inflation. Given that central banks and financial supervisors exist to provide financial and price stability, pre-emptive action to mitigate these risks is firmly within their mandate.

Though central banks and financial supervisors have recognised in recent years that they do have the mandate to take action on climate related financial risk, they are yet to make full use of their market shaping role to limit the negative environmental impacts generated by regulated actors, such as banks, insurance companies and asset managers. The have also so far failed to afford biodiversity and ecosystem loss the same significance as climate change, despite the evidence of the two crises compounding one another and requiring equally urgent action.

A PATHWAY TO A CLIMATE-SAFE AND NATURE-POSITIVE GLOBAL ECONOMY

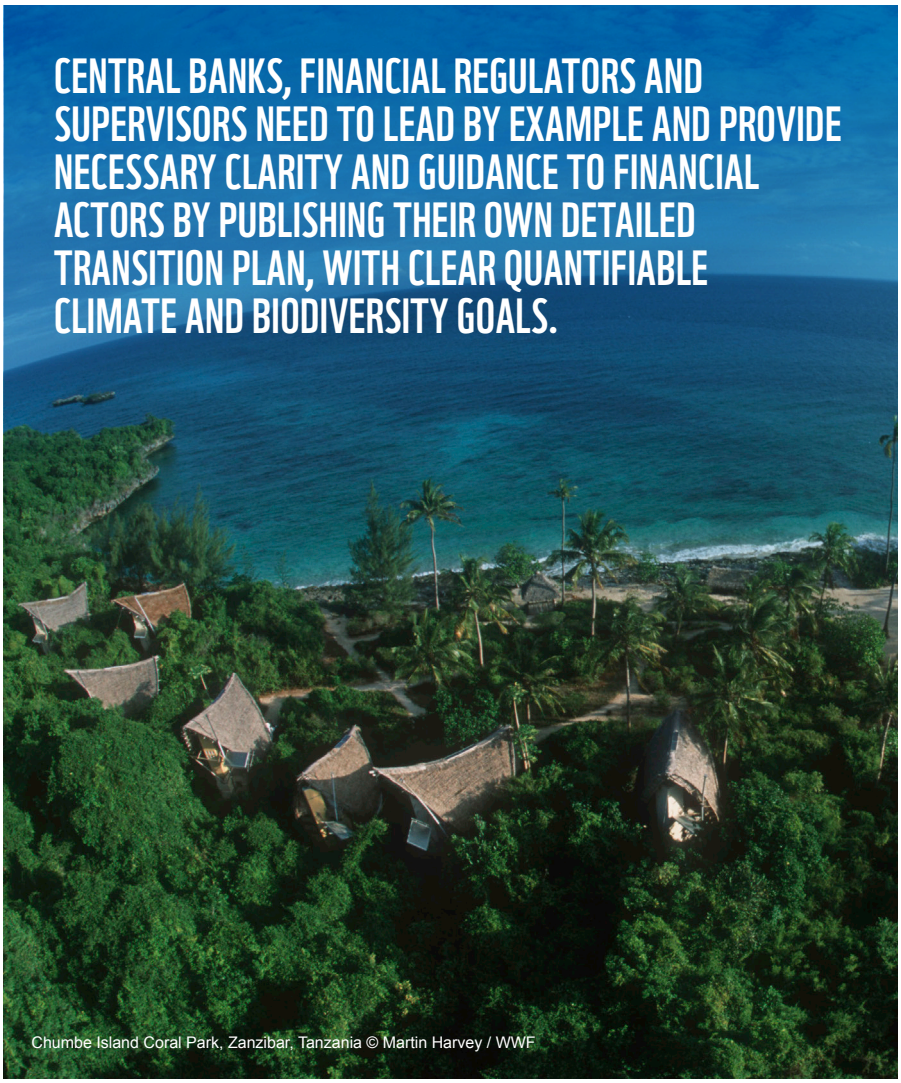


WHY DISCLOSURE IS NECESSARY BUT NOT SUFFICIENT

The steady increase in climate related financial disclosures in recent years has been a positive development, but whilst disclosure is a crucial first step, it not sufficient to achieve change at the scale and speed required. The quality of disclosures can be poor and lack substance, and many financial institutions have yet to disclose: the European Central Bank found that only 15% of European banks publish data on the emissions they finance, despite the recommendations of the Task Force on Climate Related Financial Disclosures being in place since 2017. Nature-related financial disclosures are still a way off, with a framework yet to be agreed.

Practice shows that central banks and financial supervisors recognize that they must move beyond disclosure regimes, with the Bank for International Settlements calling less for improvements in risk modelling and more for decisive, immediate action and coordination. Furthermore, the time horizons of investors and financial institutions are also often far shorter than the timescale in which damage to the planet will cause significant financial losses and instability.

CENTRAL BANKS, FINANCIAL REGULATORS AND SUPERVISORS NEED TO LEAD BY EXAMPLE AND PROVIDE NECESSARY CLARITY AND GUIDANCE TO FINANCIAL ACTORS BY PUBLISHING THEIR OWN DETAILED TRANSITION PLAN, WITH CLEAR QUANTIFIABLE CLIMATE AND BIODIVERSITY GOALS.



Chumbe Island Coral Park, Zanzibar, Tanzania © Martin Harvey / WWF

JUST TRANSITION AND GEOPOLITICS

Governments, central banks and financial supervisors must work together to ensure that all of the above is delivered in a way that is consistent with a just transition. Thereby the urgent and necessary transition away from harmful activities does not disadvantage those on the lowest incomes. This would include taking into account issues relating to the current challenges posed by rising inflation and the cost of living, and the consequences for energy of Russia's invasion of Ukraine.

REFERENCES

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7. https://www.bloomberg.com/news/articles/2022-03-14/ecb-says-banks-still-need-to-make-progress-on-climate-disclosure#

8. https://www.bis.org/publ/othp31.pdf

ALWAYS ENVIRONMENTALLY HARMFUL REFERENCE POINTS

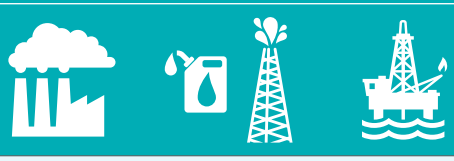
ALWAYS ENVIRONMENTALLY HARMFUL ECONOMIC ACTIVITIES

Always significantly harmful economic activities based on the 'extended taxonomy' of the EU Platform on Sustainable Finance, and activities related to logging of primary or old growth forests, deep-sea bottom trawling, and hunting of endangered IUCN RED List species.

Harmful economic activities that could be retrofitted to exit the harmful category, based on the 'extended taxonomy' of the EU Platform (e.g. truck, airplane and car manufacturers, steel and cement production, and building construction).

Geographical areas which are of high ecological importance, where economic activities are taking place. For example No-Go-Areas such as natural World Heritage Sites, Protected Areas as indicated in the Convention on Biological Diversity or Key Biodiversity Areas).

ALWAYS ENVIRONMENTALLY HARMFUL COMPANIES (BROAD)



Companies on Urgewald's Global Coal Exit List that identifies the largest coal expansionists producers and indicates the largest CO2-emitting companies.

Companies Urgewald's Global Oil and Gas Exit List that identifies the largest oil and gas expansionists producers and indicates the largest CO2-emitting companies.

Constituent companies of the Carbon Underground 200 that identifies the top 100 coal and top 100 oil and gas publicly traded reserve holders globally.

ALWAYS ENVIRONMENTALLY HARMFUL (SPECIFIC)

Companies that are expanding their environmentally harmful activities should systematically be considered as high environmental risk, whatever their exposure to harmful activities and their environmental targets and transitions plans.

Thresholds for considering a company harmful, to identify those companies that are most exposed hence face the highest related financial risks (e.g. 30% of revenues from harmful activities until 2025, thermal coal max. 15% of revenue by 2025, or deforestation related activities need to be phased out by 2030).

Exception: Harmful companies that can be exempted, based on their actions to reduce their exposure to harmful activities. The companies have set and published measurable, specific, time-bound, science-based target(s) for the environmental issues, publish five-year transition plans, and report annual progress.

HARMFUL ECONOMIC SUB SECTORS

- Oil & Gas Drilling (GICS Code: 10101010)
- Integrated Oil & Gas (GICS Code: 10102010)
- Oil & Gas Exploration & Production (GICS Code: 10102020)
- Oil & Gas Refining & Marketing (GICS Code: 10102030)
- Oil & Gas Storage & Transportation (GICS Code: 10102040)
- Coal & Consumable Fuels (GICS Code: 10102050)
- Fertilizers & Agricultural Chemicals (GICS Code: 15101030)
- Gas Utilities (GICS Code: 55102010)
- Electric Utilities (GICS Code: 55101010)
- Multi-Utilities (GICS Code: 55103010) in so far as it relates to electric and/or gas utilities (not water utilities)
- Independent Power Producers & Energy Traders (GICS Code: 55105010)
- Steel (GICS 15104050) in so far as it relates to metallurgical (coking) coal mining used for steel production (not steel production itself)

SIGNATORIES: WWF, [AND OTHERS):

LOGOS FROM COSIGNING NGOS, THINK TANKS, INTERNATIONAL ORGANIZATIONS AND NAMES FROM THOUGHT LEADERS

MORE DETAILS: SEE THE ROAD MAP AND TECHNICAL BRIEFING FROM WWFI - TBC [ADD LINKS]

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