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The private sector can and should take the chance to speed up the transition

Climate change is an existential threat to mankind. In order to meet this threat, we need extensive policy decisions. In particular, carbon prices must go up. The private sector and the financial market can contribute, said Finansinspektionen's Director General Erik Thedéen at the Hållbara Finanser 2021 conference (Sustainable Finances). By already preparing now to be able to quickly report in accordance with future international standards on corporate sustainability reporting and also voluntarily using and reporting internal carbon pricing.

“Carbon prices must increase throughout the world if we are to reach the goals set in the Paris Agreement. If firms have already adapted to a higher future price by using internal pricing and subsequently begun to take action based on these higher prices, they will face better conditions for managing the transition. This will also make it easier for investors to direct capital away from firms that are not profitable in the long term because they are unsustainable. In addition, it may also become easier to pass the required policy decisions,” said Erik Thedéen. It is a good deed and a possibility that everyone here should seize.

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Climate change and the transition give rise to new risks that society needs to manage. The planet is becoming warmer, which is already having a large negative impact, and if we look ahead, many scenarios look very disturbing if we do not take action. Climate change and the climate transition will have an

impact on virtually every aspect of our lives. The financial sector that FI has been tasked with monitoring will also be affected.

In order to carry out our assignments – to safeguard financial stability and consumer protection and to promote the contribution of the financial system to sustainable development – we need to ensure that financial firms are managing climate risks and benefiting from the opportunities. This way, we can contribute to the transition.

The transition requires large investments in infrastructure and technology. The financial sector plays an important role to push for these investments by pricing risks and opportunities. Based on these prices, they can then channel capital away from unsustainable activities to sustainable ones. This is how they can contribute to the transition.

From brown to green, quite simply.

But financial firms are often middlemen. In order to be able to address these matters properly, certain prerequisites need to be in place. A key condition is access to relevant information from the firms they are financing.

The biggest challenge is not a lack of information. Many firms already publish a good deal of sustainability-related information, but there are no specific requirements on what information the firms should provide and how. Instead, firms are using different voluntary frameworks. This makes it hard to compare information and increases the risk of greenwashing. And even if information is available, it is difficult to understand how firms are affected financially by sustainability factors.

Work is under way globally to address this issue. The leading organisations that develop standards and guidelines for sustainability reporting have agreed to develop more coherent and uniform sustainability reporting worldwide. The organisation behind the IFRS is also working to set up an administrative structure for sustainability reporting similar to the one that currently exists for financial reporting. IOSCO, the International Organisation of Securities Commissions, where FI is leading a task force on sustainable finance, has taken an active role in ensuring that a future standard meets the requirements on content and credibility that would enable it to become an integral part of the regulatory financial reporting framework. This work is progressing at a very rapid pace, and the goal is to have a proposal in place by COP26 in November this year.

We will talk a lot about the global standard in the next few years. In brief, it will ensure that the firms' accounting includes joint metrics for how their current and future financial position, economic outcome or risk profile (e.g. cost of capital) will be affected by the change that is coming.

“In short, it is about bringing the future into the present,” said Erik Thedéen. “It will give us better conditions for identifying winners and losers in the transition to a fossil-free future.”

It is important for firms to take this development into consideration. We therefore encourage firms already now to start applying the TCFD recommendations. They provide a starting point for the global work and the ongoing review of the EU regulations on corporate sustainability information.

One example of how to bring the future into the present is internal carbon pricing. Carbon prices must increase throughout the world if we are to successfully manage the transition. And carbon prices can be expected to increase.

Firms need to prepare for rising emissions prices, and using internal pricing is one way to do this. This will simultaneously lead to a number of positive effects. For firms, investors and society.

It will help firms identify vulnerabilities and adapt their business to a long-term perspective.

And it enables investors to identify activities that may have a hard time managing a transition. Investors can then direct capital away from firms that are not profitable in the long term because they are unsustainable.

But it is also good for policy. Because decisions on emissions prices or carbon taxes require policy decisions. And if the private sector has already transitioned and adapted to a higher price, these decisions are easier to make. Everyone benefits.

I will conclude by referring back to the challenges that I mentioned at the beginning and that we all know. For financial firms, the risks increase when the world becomes more uncertain. We must ensure that they take that into account. Greater demand for sustainable investments can also expose consumers to the risk of not getting what they paid for.

We must also be clear that it is mainly changes in the real economy that will determine if we successfully manage the threat. This requires policy decisions. To reach the climate goals in the Paris Agreement, carbon emissions must go down drastically. The most effective way to do this is by making it more expensive to emit carbon than it is today.

But we can all contribute to facilitate and speed up the transition. This is why I want to highlight the importance of greater transparency and internal carbon pricing. Everyone will benefit if both firms and investors begin already now to adapt to a higher future price and to act on that basis, and it will enable to push through the decisions required.

It is a good deed and a possibility that everyone here should seize.