



# SUMMARY OF FC4S ACTIVITIES JANUARY TO JUNE 2020

On the back of a successful 2019 AGM, FC4S undertook a rigorous workplan across the first half of 2020 underpinned by its five major areas of work: strengthening strategic commitment, boosting market integrity, building capacity, fostering innovation and serving the real economy.

Focusing on **strengthening strategic commitment**, in January FC4S held a series of meetings in Dublin with the Irish Government. FC4S is currently engaged in discussions with the Irish government concerning future funding support. Moving to the Gulf, the secretariat moderated a key panel at the second Annual Abu Dhabi Sustainable Finance Forum, at the invitation of FC4S member Abu Dhabi Global Market (ADGM). Post-event, ADGM was also briefed on FC4S plans for 2020. Engaging with the Swiss Federal Department of Foreign Affairs, the secretariat represented FC4S in Davos at the Fintech For Good event, providing an important opportunity to update key Swiss partners on FC4S 2020 activities. In Asia, the secretariat engaged with the People's Bank of China as they worked to develop a plan for a Beijing green finance hub.

In Q1, FC4S Europe settled on a work plan for the year including providing direct input to the work of the EC Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) on the renewed sustainable finance strategy. In Abidjan, the secretariat provided an overview of FC4S work to the Coalition of Finance Ministers for Climate Action.

Concentrating on strategic commitment, the secretariat began updating the annual assessment survey tool, with the support of PwC and a small working group consisting of Dublin, Frankfurt, Guernsey, London, Paris and Shenzhen, plus the UNDP Finance Sector Hub and the Institute for Climate Economics (I4CE). As per members request during the 2019 AGM, this will see a greater alignment between the assessment survey and the FC4S sustainable finance scale alignment criteria.

FC4S Africa discussed the development of a multi-year work plan for the implementation of the FC4S Africa Programme. Responses from the members – Cairo,

Casablanca, Nairobi, Abidjan and Lagos, suggest that the work plan could be articulated around seven groups of activities including capacity development and technical assistance, institutional development, market development, strategic development, data and information, innovation as well as convergence and coordination. An FC4S Africa virtual regional meeting will take place in early August to finalize this discussion.

With support from Toronto and Mexico City, the secretariat is also currently exploring the appetite for an FC4S Americas regional group.

In terms of **boosting market integrity** and at the invitation of Luxembourg for Finance, FC4S was the keynote speaker at the *Luxembourg Central Bank and Sovereign Wealth Fund Forum*, organized by Deutsche Börse with 140 central bankers and sovereign wealth fund managers participating.

With the launch of the *Nudging the Financial System* report, FC4S boosted market integrity by analysing the complex array of relationships of sustainable finance partnerships, while highlighting how the sustainable finance ecosystem can better work to achieve the global development goals of the next decade. A world's first in terms of mapping, the secretariat continues to build on this work.

On World Environment Day, FC4S collaborated with I4CE to launch a report titled *"What role for financial regulation to help the low-carbon transition?"* This report was drafted as a contribution to a European project funded by EIT Climate-KIC to help develop FC4S in Europe. The report analyses the different objectives that regulators can pursue to help the financial sector respond to the climate urgency, and provides an overview of the instruments at their disposal. With Hong Kong, Frankfurt and Paris financial centres, and the Moroccan Central Bank participating as panel members, this report was followed up with a webinar on the impact of financial regulations in different countries and regions transitioning to a low-carbon economy.

Across H1, FC4S also engaged with members to **build capacity**. A collaboration was undertaken with Lagos to launch a project with the Climate Bonds Initiative to screen and identify green/brown assets in the portfolios of five Nigerian banks; to be followed by developing a framework for financial institutions to report on their green assets to regulators. The capacity-building work continued at a regional level as FC4S Europe started work on a report to be published in Q3 with the support of Deloitte. Considering the realisation of the European Union New Green Deal and the renewed sustainable finance strategy within, this skills report - *"FC4S Europe Analysis of Future Sustainable Finance Skills & Talent in Europe"* will be essential in strengthening the skills base of financial practitioners in Europe. Underpinned by a pan-European survey and with member support, responses were received from Luxembourg, London, Paris, Frankfurt, Lisbon, Madrid, Barcelona, Liechtenstein, Zurich, Geneva, Dublin and Guernsey, ensuring this work also **serves the real economy** of European countries.

In Mexico, FC4S supported local capacity-building efforts with the first in-depth diagnosis of the current degree of readiness of Mexican financial institutions to assess climate, environmental, and social risks. Developed in partnership with the Central Bank of Mexico, UNEP and UNDP, the report *"Climate and environmental risks and opportunities in Mexico's financial system: From diagnosis to action"* called upon Mexican financial institutions to make a collective effort to incorporate environmental issues into their risk assessment and corporate governance strategies.

With most of the world suffering due to COVID-19 and with the co-chairs support, FC4S put out a working paper on the implications of the COVID-19 pandemic on sustainable finance. With a focus on **fostering innovation**, the paper was one of the first of its kind supporting thinking on how to respond to the pandemic from a sustainable finance perspective. Shared widely, this also included the Network for Greening the Financial System sharing the report with its more than 60 members.

LIKE MANY OTHERS, THE LOCKDOWN LED TO FC4S HAVING TO CANCEL SEVERAL REGIONAL EVENTS, WHICH INCLUDED AN FC4S ASIA MEETING IN BEIJING (25TH & 26TH FEBRUARY); AN FC4S EUROPE MEETING IN BRUSSELS (11TH & 12TH MARCH); AND AN FC4S AFRICA MEETING IN CAIRO (25TH & 26TH MARCH). SECRETARIAT PARTICIPATION IN MEMBER-ORGANIZED EVENTS IN GUERNSEY, BARCELONA, LUXEMBOURG, ZURICH, AND DUBLIN WERE ALSO PUT ON HOLD AS WAS AN AMERICAS REGIONAL VISIT. HOWEVER, IN GOING VIRTUAL THE SECRETARIAT HAS PARTICIPATED IN NUMEROUS MEMBER CALLS, WEBINARS AND REGIONAL SESSIONS DURING RECENT MONTHS.

Now in Q3, the Secretariat is focused on AGM preparation, while closing out several work streams including an update to the annual members assessment survey, the pan-European skills report, launch of a feasibility into the development of a FC4S Americas and close out of the FC4S Africa future work plan. Across this period, at the regional level virtual member meetings are organised / being organised with Europe, Africa and Asia from end July into early September.

## FC4S REPORTS LAUNCHED IN 2020

### NUDGING THE FINANCIAL SYSTEM – A NETWORK ANALYSIS APPROACH



FC4S's first report of the year mapped out and analysed the complex array of relationships of sustainable finance partnerships, while highlighting how the sustainable finance ecosystem can better work to achieve the global development goals of the next decade.

“Nudging the Financial System: A network analysis approach” focuses on efforts currently undertaken by individual countries, regional groups, multilateral development banks (MDBs), international organizations (IOs), private sector entities, and non-governmental organizations (NGOs). Analyses of these diverse arrays of sustainable finance partners are deemed relevant for the alignment and cascading of sustainable finance into the wider financial system.

The current global sustainable finance network is composed of 115 different “partnerships,” 5,181 constituent members and more than 10,000 connections. Based on network analytics, the report shows that 75% of network participants are connected to only one partnership and only 13% of the network participants is connected to three or more other partnerships. This shows that the core of the sustainable finance agenda is mainly driven by a small number of network constituents, including financial institutions, regulators and MDBs, but also demonstrates how organizations with a broad geographic presence can play an important role in convening, connecting, facilitating and scaling up the reach and impact of the current sustainable finance network.

An increasing number of partnerships at the international, national and market-based levels have driven the overall transition towards a sustainable financial system capable of delivering a sustainable real economy.

This exponential growth in sustainable finance initiatives highlights the mainstreaming of the sustainable finance agenda, but challenges still remain. Many financial institutions have expressed confusion about the abundance of partnerships, which in turn could be a barrier to catalyse mass adoption.

One of the major conclusions is that given the growth in network partnerships, an effort by members of a sustainable finance network to increase and broaden the coordination of their activities can help the network develop, as well as express and sustain a more coherent structure at a higher level. This would allow for increased efficiency in system-wide outcomes and help green the financial system and mainstream sustainable finance as one the pillars to achieving the 2030 Agenda.

The report, was the result of a collaboration between FC4S, the United Nations Environment Programme (UNEP) Inquiry and the United Nations Development Programme Finance Sector Hub (UNDP FSH).



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## IMPLICATIONS OF THE COVID-19 PANDEMIC FOR GLOBAL SUSTAINABLE FINANCE: AN INITIAL FRAMEWORK FOR RESPONSE STRATEGIES



FC4S's second report of the year was a working paper on the implications of the COVID-19 pandemic on sustainable finance. The paper supports thinking on how to respond to the pandemic from a sustainable finance perspective. Specifically, it had two objectives.

The first was to set out the ways in which the many different components of the sustainable financial system – market actors, policymakers, regulators, and international institutions – are thinking, planning and reacting to the pandemic, with a focus on implications for sustainable finance markets.

The second objective was to set out a framework for assessing what levers may exist to strengthen the role of the financial system in supporting a low-carbon recovery, and the prospective roles for different communities of actors.

The paper is a work in progress and will be updated and refined in the future as new information and new ideas are shared. This allows the FC4S network to continuously gather information and insights, and incorporate the inputs received through its global outreach.

### SOME TAKEAWAYS FROM THE REPORT INCLUDE:

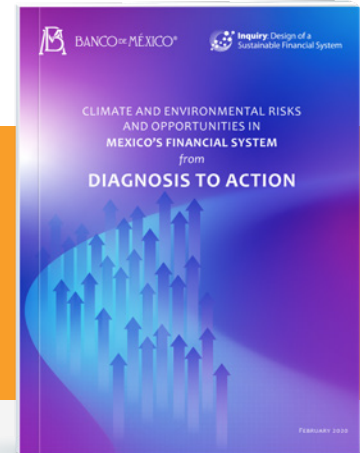
- The global disruption stemming from the COVID-19 crisis is a stark warning of what the future may hold if sustainability risks—including climate change, social tensions and other ESG risks—are not effectively mitigated.
- Initial concern was that that COVID-19 will have a negative impact on the sustainable finance agenda. The sense is that the opposite is happening - the global economic reset can act as a catalyst for a deliberate global transition towards scaling up sustainable finance, i.e. European Union New Green Deal.
- Capital raising to fund the stimulus will need to take many forms – and green securities could play a major role.
- Financial supervisors are likely to strengthen focus on long-term risks with exponential characteristics – potentially leading to a more granular assessment of climate risks.
- Now at an inflection point and with a remarkable opportunity to build back better.



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## CLIMATE AND ENVIRONMENTAL RISKS AND OPPORTUNITIES IN MEXICO'S FINANCIAL SYSTEM: FROM DIAGNOSIS TO ACTION



FC4S was pleased to support a report, “Climate and environmental risks and opportunities in Mexico’s financial system: From diagnosis to action,” which called upon Mexican financial institutions to make a collective effort to incorporate environmental issues into their risk assessment and corporate governance strategies, as well as to take advantage of the opportunities that would result from the transition to a low-carbon economy.

It was an initial grounding paper to encourage the development of a national dialogue to understand how environmental sources of financial risk can be more effectively integrated into mainstream decision-making by financial institutions. This study represented a first in-depth diagnosis on the governance architecture adopted by financial institutions in Mexico, and is **the first central bank in LATAM publishing such a study**. The results are based on a survey conducted on the senior management of over 60 institutions; 90% of the credit portfolio of the banking system, 80% of the assets reported by fund managers to Mexico’s National Securities and Banking Commission (CNBV), 90% of the assets managed by the Retirement Funds Administrators (AFORES), and 44% of the assets reported by insurance companies.

According to the report, although Mexican financial

institutions have become more aware of climate risks, it is essential to integrate more systematic and standardized measures, implement the international agenda, and develop methodologies and areas of responsibility within their own corporate governance structures. In this regard, it draws upon implementing specific actions to mitigate environmental risks and increase green financing flows to the Mexican economy, such as defining a national taxonomy for green and sustainable activities; setting clear timelines and corporate governance commitments by financial system actors to improve and monitor climate risk management; designing the incentives to incorporate environmental-related factors to firms’ strategic planning; and developing voluntary reporting standards for Mexican firms.

At the formal launch event hosted by the Governor of the Central Bank, present were **Mexico’s financial regulators and +60 CEOs representing over 90% of Mexico’s financial industry**, including banks, insurers, asset managers and asset owners.

FC4S was proud to support the Central Bank of Mexico (Banco de México), the UN Environment Programme (UNEP) and the United Nations Development Programme (UNDP) in the creation of this report.



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