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Welcome remarks

Green Friday Workshop: “The road to net-zero: transition plans and forward-looking analysis” / Banco de España

Madrid

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Deputy Governor

Good morning,

It is a great pleasure for me to welcome you all to this first Green Friday of 2023. We began these in-person events in 2019 and we are delighted that this year we are now able to resume this format.

Today's workshop focuses on a key issue, namely **the road to net-zero or net zero emissions**.

The scientific community has shown that climate change has now arrived and that the impact is significant. In addition, the physical and transition risks of climate change mean that it has direct effects on our environment, posing a threat to the stability of the financial system in general and to the economic outlook in particular.

To achieve the goals of the Paris Agreement, a **decarbonisation path and transition plans** must be set in place to enable us to reach **net-zero**. In the words of the United Nations, this means "cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions being reabsorbed from the atmosphere, by oceans and forests for instance".¹

Today's first presentation, by Helena Viñes, examines precisely this issue: what is net-zero and what might it entail.

The **transition process** and the achievement of these long-term global goals affects all economic sectors worldwide. To this end, financial and non-financial corporations alike must draw up detailed plans, setting in place strategies that include sustainability factors and climate and environmental risk management. Only then will it be possible to build resilience – which is vital to ensure firms' viability – in business models for the short, medium and long term.

In recent years, fresh initiatives have been set in place in this field. The **Glasgow Financial Alliance for Net Zero (GFANZ)** launched in 2021 and the COP26 presidency brought together **several financial system initiatives to coordinate efforts** to accelerate the transition to carbon neutrality in the world economy. For instance:

- Those affecting the **asset owner and asset manager** sector, such as the Net-Zero Asset Owner Alliance, the Net-Zero Asset Managers Initiative, and Paris Aligned Asset Owners. All these initiatives have pledged to support net zero emission investment by 2050, establishing decarbonisation goals for 2030.
- In turn, **insurers and reinsurers** that are members of the Net-Zero Insurance Alliance have undertaken to make the transition of their respective insurer and reinsurer portfolios to net-zero greenhouse gas (GHG) emissions by 2050.
- In the **banking sector**, the Net-Zero Banking Alliance brings together banks that have committed to align their credit and investment portfolios to the goal of net-zero by 2050.

¹ <https://www.un.org/en/climatechange/net-zero-coalition>.

- Lastly, both the **financial service provider sector** and the **investment consultancy sector** also have their respective alliances: the Net Zero Financial Service Providers Alliance and the Net Zero Investment Consultants Initiative.

Moreover, both at **central banks** and in the ambit of the Network for Greening the Financial System (NGFS), we are aware of the importance of achieving net zero. This was reflected, last year, in the creation of a **specific working group on this issue**. The main areas of work are:

- i) the inclusion of sustainable and responsible investment principles in non-monetary policy portfolio management
- ii) disclosure of climate and environmental considerations of central banks and of their non-monetary and monetary policy portfolios
- iii) more sustainable corporate business at these institutions.

In particular, since 2019, sustainable and responsible principles are included as a core feature of the **Banco de España's** non-monetary policy portfolio management investment policies. We have adopted the Eurosystem's common stance, agreed in 2021, to incorporate sustainable and responsible investment (SRI) principles in our non-monetary policy portfolios and we will soon begin to disclose information in this respect.²

At the Banco de España we have also assumed a firm commitment to reduce the environmental impact of our activities and to achieve continued sustainability improvements through our Corporate Sustainability Policy.

As you can see, all the initiatives I have mentioned share a common long-term goal. Specifically, **transition plans are an instrument for change**, enabling individual climate goals that help build resilience in the respective economies to be achieved.

In 2021 the Task Force on Climate-related Financial Disclosures (TCFD) included in its **recommendations for disclosure** that organisations **draft plans for transition** towards a low-carbon economy, including more details on the real and potential impacts. According to the TCFD,³ a transition plan is an aspect of an organisation's overall business strategy that lays out a set of targets and actions supporting its transition towards a low-carbon economy.

The climate goal commitments assumed by countries, firms and financial institutions must go hand-in-hand with credible and comparable transition plans.

So where are we now? In early February, the Carbon Disclosure Project (CDP) published data on the progress made in the adoption of transition plans.⁴ According to this report, of a total of 18,600 organisations, more than 4,000 had a climate transition plan in place in

² Banco de España press release of 4 February 2021. The Banco de España adopts the Eurosystem's common stance for sustainable investment.

https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/21/presbe2021_14en.pdf

³ Task Force on Climate-related Financial Disclosures. Guidance on Metrics, Targets, and Transition Plans. October 2021. https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

⁴ CDP. "Are companies developing credible climate transition plans?". February 2023. https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/785/original/Climate_transition_plan_report_2022_%2810%29.pdf?1676456406

2022, but only 81 (0.4%) complied with all 21 key indicators established by the CDP for drafting of a climate transition plan.

At the European level, the new EU Directive on non-financial reporting (**CSRD**) imposes mandatory reporting of transition plans for firms subject to the Directive. The European Financial Reporting Advisory Group (EFRAG) will define the specific content of these plans, which has still to be finalised.

More specifically in the **banking arena**, the European Banking Authority (EBA) has published, in its Roadmap on Sustainable Finance,⁵ the mandate it received from the European Commission to issue guidelines for institutions on the identification, measurement, management and monitoring of ESG risks, including transition plans.

There is, therefore, still a **long road ahead**.

Today we will learn a little more about how all these initiatives are being implemented, both in the business and the financial world.

Throughout all this process of setting goals and designing transition plans, having comparable and reliable **climate data available** poses one of the main challenges. Such data are essential to be able to define and set goals and compile **forward-looking metrics**, and precisely for this reason disclosure is vital.

Yet as the NGFS noted last year,⁶ this poses several challenges:

- First, unlike historical data, forward-looking metrics and data are not easily observable and are therefore more difficult to access, as they must be compiled by a third party.
- Second, forward-looking transition risk data often refer to data collected on commitments to climate goals, so the availability of such data depends on the collection of data on those commitments.
- Third, the metrics needed to formulate credible transition plans are not always easy to understand and the methodologies used are not standardised.

It is precisely because such data are so essential that today we will devote **two specific sessions to these matters: the first on how to produce specific metrics, and the second on how to improve data availability for forward-looking indicators**.

We have dedicated this first Green Friday of 2023 to the transition towards net-zero, transition plans and forward-looking analysis precisely in view of the challenges we currently face. Because, in the words of Antonio Guterres, Secretary-General of the United Nations, *“We urgently need every business, investor, city, state and region to walk the talk on their*

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https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2022/ESG%20roadmap/1045378/EBA%20Roadmap%20on%20Sustainable%20Finance.pdf

⁶ NGFS Final report on bridging data gaps. July 2022.

https://www.ngfs.net/sites/default/files/medias/documents/final_report_on_bridging_data_gaps.pdf

*net zero promises. We cannot afford slow movers, fake movers or any form of greenwashing”.*⁷

I wish to take this opportunity to thank all of you who are here today, and especially all today’s speakers for their contributions. We have a most interesting morning ahead of us. The enthusiastic response to this event is a clear indication of the desire to learn more about these issues. We trust it will also serve to keep the dialogue alive.

Thank you.

⁷ https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf.