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PRESS RELEASE

Climate Finance Market Structure must grow at an unprecedented scale, speed, and geographic scope to meet the investment needs to transition to a low carbon economy.

Washington, DC, 3 December 2020 – The Global Financial Markets Association (GFMA) and Boston Consulting Group (BCG) have today published a global report outlining the market-wide and sector-specific recommendations necessary to accelerate investment in climate finance.

The report, "[Climate Finance Markets and the Real Economy](#)," is a call to action for coordinated and concerted action by the public, social, and private sectors to significantly scale the Climate Finance Market Structure (CFMS) over the next three decades. These include a call for evolving our current market structure to address the advent and needs of climate finance and the creation of financial instruments and structures required to continue to serve the financing, investment and risk management needs for a broad set of market participants, as well as market wide sector, or individual corporate, and region-specific changes necessary to motivate investment. The report also highlights the role that capital markets and other participants must play to support transition pathways at the same time continue to serve their clients, investors, and the societies where they want to do business.

"We recognise that in order to meet the targets set out in the Paris Agreement we need to act quickly to build a high-functioning market structure that can facilitate a significant increase in the level of investment in the climate transition," said Steve Ashley, Nomura Head of Wholesale Division and Chairman of GFMA.

"It's important to note that, while the banking and capital markets sector stands ready to facilitate change, we need the support of policymakers and the wider private sector to create the incentives to make this work. We hope this report will act as a call to action."

Written jointly by GFMA and BCG and advised by contributing member financial institutions, the report is based on interviews conducted with more than 100 market participants globally, during the third quarter of this year. The report is being published ahead of GFMA's Annual Capital Markets Conference on Sustainable Finance.

"This report was developed by leading global capital markets firms and related stakeholders and

seeks to identify and to provide a concrete, actionable, and comprehensive roadmap to develop a climate finance market structure to increase the quantity and quality of financing for climate change mitigation and adaptation,” said Kenneth E. Bentsen, Jr., CEO of GFMA and President and CEO of SIFMA.

Roy Choudhury, Managing Director and Partner at BCG, added: “This report includes an in-depth analysis of 10 sectors which generate 75% of the world’s carbon emissions and provides clarity on the decarbonization levers by sector, as well as the investment needs by sector and region,”

“The banking and capital markets sectors plays a critical role in the CFMS transformation as an intermediary between the supply and demand for capital—as a lender, arranger, and investor. Innovation will be critical to scale climate finance, more specifically, financial products, to mobilize capital across a broad range of investors and promote climate finance awareness and literacy.”

This report estimates a \$100-\$150 trillion investment needs over the next three decades to transition to a low carbon economy. This translates to at least \$3–\$5 trillion of investment per year – an increase of five to eight times from current levels. The report also highlights a necessary shift of the CFMS to focus more on the need for “green” equity to support low-emissions projects, noting that 35% of the funding needed to meet the Paris 2C requirements is required from equity, alongside 44% from loans and 21% in bonds. In order to motivate this significant rise in investments aligned to climate finance, the price of carbon must rise to fully price in emissions. The climate finance needs are also not linear over the next three decades— lack of urgent action today will result in significantly higher need for climate adaptation and mitigation investments tomorrow.

A key risk identified to the efficient scaling of the climate finance market is the need for policymakers and broader society to consider the role that financial market participants currently serve supporting the broader economy and economic policy frameworks that underpin and will need to align with Paris Agreement targets. Currently, many counterparties utilizing low GHG emission business models are economically uncompetitive due to the absence of carbon pricing and there are also counterparties where the sector, counterparty or the region have yet to identify viable transition pathways to a low GHG business model. Once the level playing field and transition pathway questions have been addressed, this will unlock the pipeline of investment and financing opportunities for banks and capital markets, with the financing proceeding on an economically sound basis. The unprecedented call to action¹ aims to help mitigate substantial mis-pricing and potential financial stability risks which would undermine the long-run ability of the financial system to direct finance to fully support the Paris-aligned transition.

“Achieving the necessary pace and scale of growth in climate finance will require first significant new innovations to evolve the current financial market structure to enable the needed efficiency, transparency, and scalability to address climate risks. This also requires concerted and

¹ See section 5 of the [Report](#)

coordinated action by all stakeholders—the public sector, the real economy sectors, the banking and capital markets sectors, investors, asset managers, and the social sector—to support the development of the CFMS which our members stand ready to partner in making this happen,” concluded Kenneth E. Bentsen, Jr., CEO of GFMA and president and CEO of SIFMA.

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GFMA represents the common interests of the world’s leading financial and capital market participants to provide a collective voice on matters that support global capital markets. It also advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end users. GFMA efficiently connects savers and borrowers, thereby benefiting broader global economic growth. The Association for Financial Markets in Europe (AFME) located in London, Brussels, and Frankfurt; the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong; and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA.

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