

SUSTAINABLE INVESTMENT BULLETIN

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We are excited to continue our speaker series in the 2021-22 academic year. This new set of webinars will focus on issues related to the interaction between the financial system and sustainable development goals: environmental, social, and governance (ESG). The talks focus on financial sustainability, green finance, and, more generally, the role of the financial system in combating climate change as well as addressing other ESG goals.

Settling Climate Accounts: Navigating the Road to Net Zero

On November 5, 2021, the CAFIN and UC Investment Speaker Series hosted Dr Alicia Seiger, Lecturer at Stanford Law School, Managing Director at Precourt Institute Sustainable Finance Initiative, and Managing Director at Steyer-Taylor Center for Energy Policy and Finance, in conversation with Dr Galina Hale, Professor of Economics at UC Santa Cruz. Here, we provide a summary of the discussion. The video of the conversation and the slides of the presentation are available on [our website](#).

Alicia discussed the contents of the recent book, [Settling Climate Accounts: Navigating the Road to Net Zero](#), that she co-edited with Professor Thomas Heller of Stanford Law School. As the world turns towards the convergence of global climate policy to net-zero emissions, the book covers financial aspects of transition to net-zero that get less attention than they deserve in the climate change literature. In particular, the book investigates the practice of net-zero accounting in finance, analyzes critical open questions of climate risk hedging, Scope 3 emissions, and Environmental Social and Governance (ESG) sustainability data “greenwashing”, and, finally, probes the role of markets and governments in the transition to a sustainable world.

The first roadblock towards achieving sustainability goals is the shortage of transparent and accurate data regarding emissions. Data is a key requirement in achieving the net-zero goal, but the reporting is still noisy, largely self-governed, and reliant on good-faith actions of the stakeholders. The problem of mis-reporting green finance (so-called “greenwashing” of the accounts) is increasingly drawing attention. Even in those sectors where data are relatively accurate and transparent, coverage and boundaries of emissions accounting are not well-defined. Technical difficulties in reporting emissions that are embedded in intermediate goods used in production or that arise further down the supply chain (Scope 3 emissions) make regulation of emission reporting very complex. This is especially true in the context of global supply chains and the jurisdictional differences that stand in the way of uniform carbon pricing laws and other regulatory mechanisms.

Looking ahead, additional challenges need to be addressed: the dichotomy in the role of governments as both regulators of, and participants in net-zero transitions; equity of accountability and action between developed and emerging economies; diplomacy in coordinated action between governments and other players who may have strategic incentives to deviate from targets; and the necessity of global oversight. These issues in the transition to net-zero technologies need to be addressed in a timely manner to avoid staying on a path that may lead to irreversible damage to our environment. Furthermore, incentives for all actors need to be sufficiently aligned to facilitate the transition.