

GREENING THE FINANCIAL SYSTEM

- Making the Central Bank Act

1 The Situation

Downloading

To integrate paradigm is identified as one of the most vital factors to address the global challenges. Furthermore, the 15th *Global Risks Report* (2020) of World Economic Forum (WEF) found that all of the top long-term financial risks are environmental and that climate change is rated as the biggest global threat.

Simultaneously, the finance sector is increasingly seen as one of the key components to accelerate the transition to sustainability, resilience, and climate neutrality. One reason is the need to mobilize large amounts of capital. OECD estimates that 6.35 trillion EUR/year is required to meet the investment needs for achieving the climate targets of the Paris Agreement and the UN's SDGs. Mobilization of such amount will require institutional as well as private capital.

CBS & the gold- & exchange reserve

The Central Bank of Sweden (CBS) primary purpose is to provide the Swedish currency (SEK) price stability, ensuring it retains its value over time. The gold- and exchange reserve is an instrument the CBS use and it cover assets equal 500 000 000 000 SEK. The reserve includes gold, financial instruments, and currencies.

2 Asking why?

Seeing

In the fall of 2019, a group member completed a project for CBS. From the project, she understood that the CBS can integrate and expand its sustainable investment strategy to a much larger extent.

So, we addressed the question and asked them why they haven't?

3 Understanding the "why?"

Sensing

They answered:



- Lack of resources;** as the allocation of the assets in a gold- & exchange reserve differ among central banks, each institution has to individually examine what is possible for them regarding sustainable investments.
- Lack of inquest in other relevant methods;** all new components towards a more sustainable investment strategy require its own assessment.
- Lack of inquest whether existing policy support such investments;**

We said: "Let's change that!"

4 Shifting the "why?" to "that's why!"

Crystalizing

Our ultimate goal:

			
Micro	Meso	Macro	Mundo
Thinking: Us doing the project for the CBS	Conversation Starter: Us presenting to the top management at the CBS	Structuring: CBS & other institutions taking action (SDG13)	System Change: CBS creates resonance as they affect other financial institutions

Climate change is one of the biggest challenges of our time. It affects how the economy works and creates new risks in the financial markets. As the CBS has the outermost responsibility for the SEK to remain its value over time, it should be vital for the CBS to try to find new ways to take sustainability aspects into account in its operations and contribute to the work on climate change and other ESG aspects to achieve its goal of long-term price stability.

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7 The Future

During our process, we have been in touch with *Stockholm Sustainable Finance Center* (SSFC). They provided us with great help, data, and sources. They have encouraged us to push ourselves further. Thus, we plan to publish some of our findings together with them. In this way, we can start a conversation around green investments, as a part of central banks' foreign exchange reserves, globally. Since the central banks generally set the standard of the financial system within a country - we are hopefully greening the whole financial system.

6 The Impact

Performing

Institutes we work with:



The sustainable development goals

By providing the proposal, we close the gaps for the CBS, making it possible for them to expand its sustainable investment strategy. By doing this we do not only address **SDG 13**, climate action, but if they invest in the "right" bonds, the CBS also canalize capital into projects that address **SDG 6, 7, 9, 11, 12, 14, 15 and 16**. In the long-run, this generates sustainability in all aspects; economic, social, and environmental due to multiplying effects. **The result is impact on all SDGs, directly or indirectly, through SDG 13.**



5 Our Process: Addressing the why

Prototyping

A conceivable component, towards a more sustainable investment strategy, is to shift parts of its holdings to green bonds and/or other categories of bonds that are considered to contribute to sustainable development. Thus, during this course we have been examining, together with the CBS, its feasibility to do so.

How we addressed the challenges



We started by providing our time. While mapping the bond market we interviewed researchers, experts & financial institutions, integrating their paradigms. During the process, we came across the proposition of a new Riksbankslag released in November 2019, in which we found room for green and sustainable investments.

As a result, we channeled the knowledge into a proposition, in line with certain criterias and laws, that advocates cer types of green investments that would be feasible for the CBS.

Our proposition will be presented to top management at the CBS in June 2020.

Some of our interviewees

- Asset Manager Amundi. **Maxim**
- Researcher MISUM, SSFC. **Emma Sjöström**
- Researcher MISUM, SSFC. **Hanna Setterberg**
- Professor at European Institute (EIAS). **Xavier Nuttin**
- Senior Economist & Analyst, Riksbanken. **Johan Blixt**
- Former AP4 & Boardmember CICERO. **Ulf Erlandsson**
- CEO & founder, Fair Finance guide. **Jakob König**
- Head of Unit, European Commission. **Dr Hiddo Houben**
- Head of Investment Analysis, Riksbanken. **Lena Strömber**
- Professor at London Schools of Economics (LSE). **Erik Berglöf**
- Researcher MISUM, Head of Operations SSFC. **Gregor Vulturius**

International Monetary Fund (IMF)

En ny Riksbankslag; Volym 3, SOU 2019:46. **Riksdagen**
EU Action Plan on Sustainable Finance. **European Commission**
Principles for Responsible Investments (UN PRI). **United Nation**

A legal analysis of terms and conditions for green bond. **Europarättslig tidskrift**
The green advantage: Exploring the convenience of issuing green bonds. **Gainfrate**
Understanding the role of green bonds in advancing sustainability. **Maltais & Nyqvist**

EU Green Bond Standard, Technical Report, Report on Benchmark. **EU Technical Expert Group on Sustainable Finance (TEG)**

A Sustainable and Responsible Investment Guide for Central Banks' Portfolio Management. **Network for Greening the Financial System (NGFS)**
Reserve management and sustainability: the case for green bonds?, Green bonds: the reserve management perspective. **Bank for International Settlements (BIS)**
Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG), Impact Reporting. **International Capital Market Association (ICMA)**