

An aerial photograph of a vast, dense tropical rainforest. A thick layer of white mist or low clouds hangs over the forest canopy, partially obscuring the trees. The sky above is filled with dark, heavy clouds, with a hint of light breaking through near the horizon. The overall mood is serene yet somber, emphasizing the scale and mystery of the natural world.

CAN DEBT CAPITAL MARKETS SAVE THE PLANET?

EXECUTIVE SUMMARY

The rapid changes our planet needs are possible –
but only if we pull the right levers

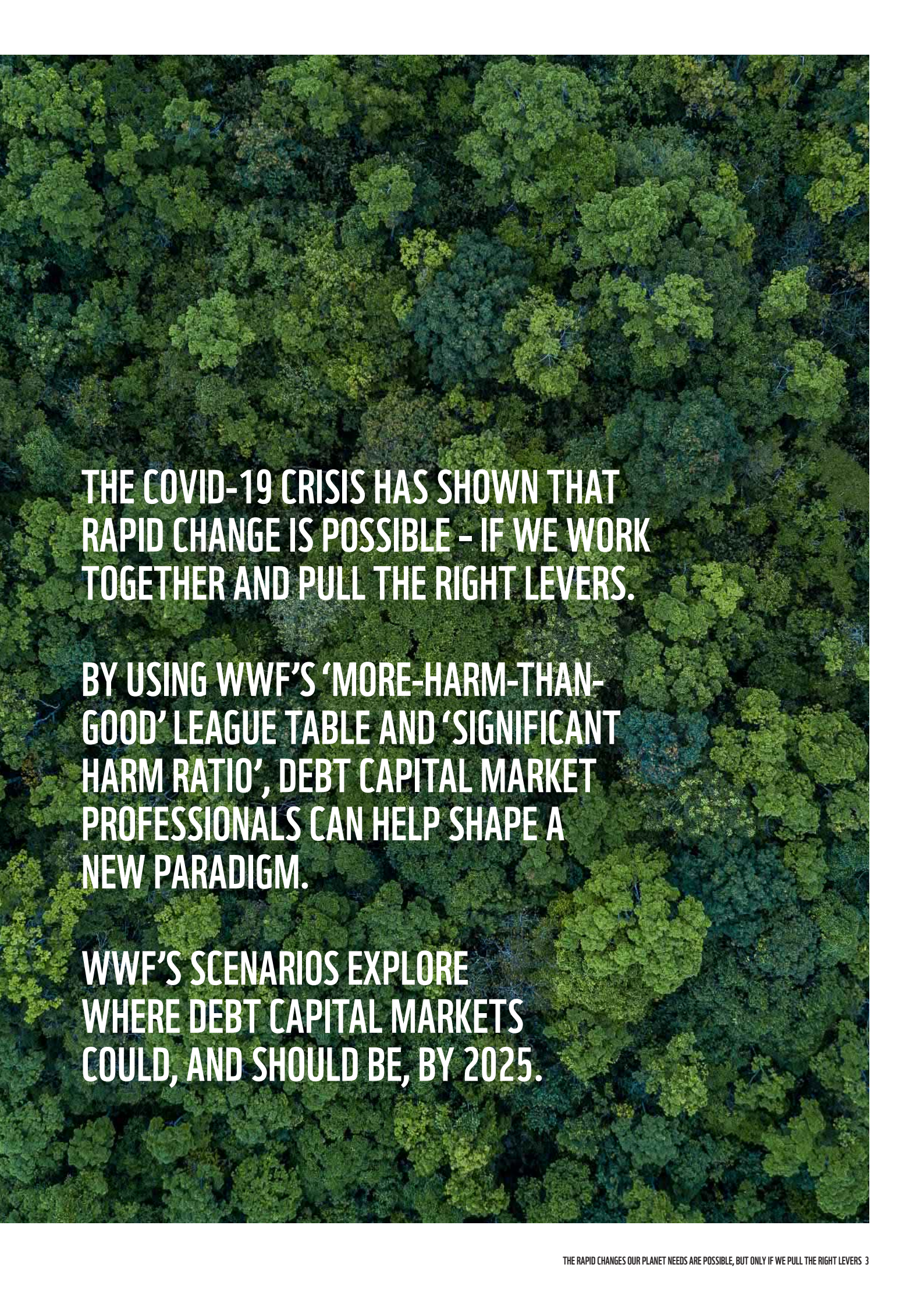
September 2021

EXECUTIVE SUMMARY

DEBT CAPITAL MARKETS MATTER
FOR THE FUTURE OF THE PLANET.

MARKET PRACTITIONERS MUST
RETREAT FROM 'BUSINESS-AS USUAL'
AND THEIR HISTORY OF CREATING
MORE HARM THAN GOOD.

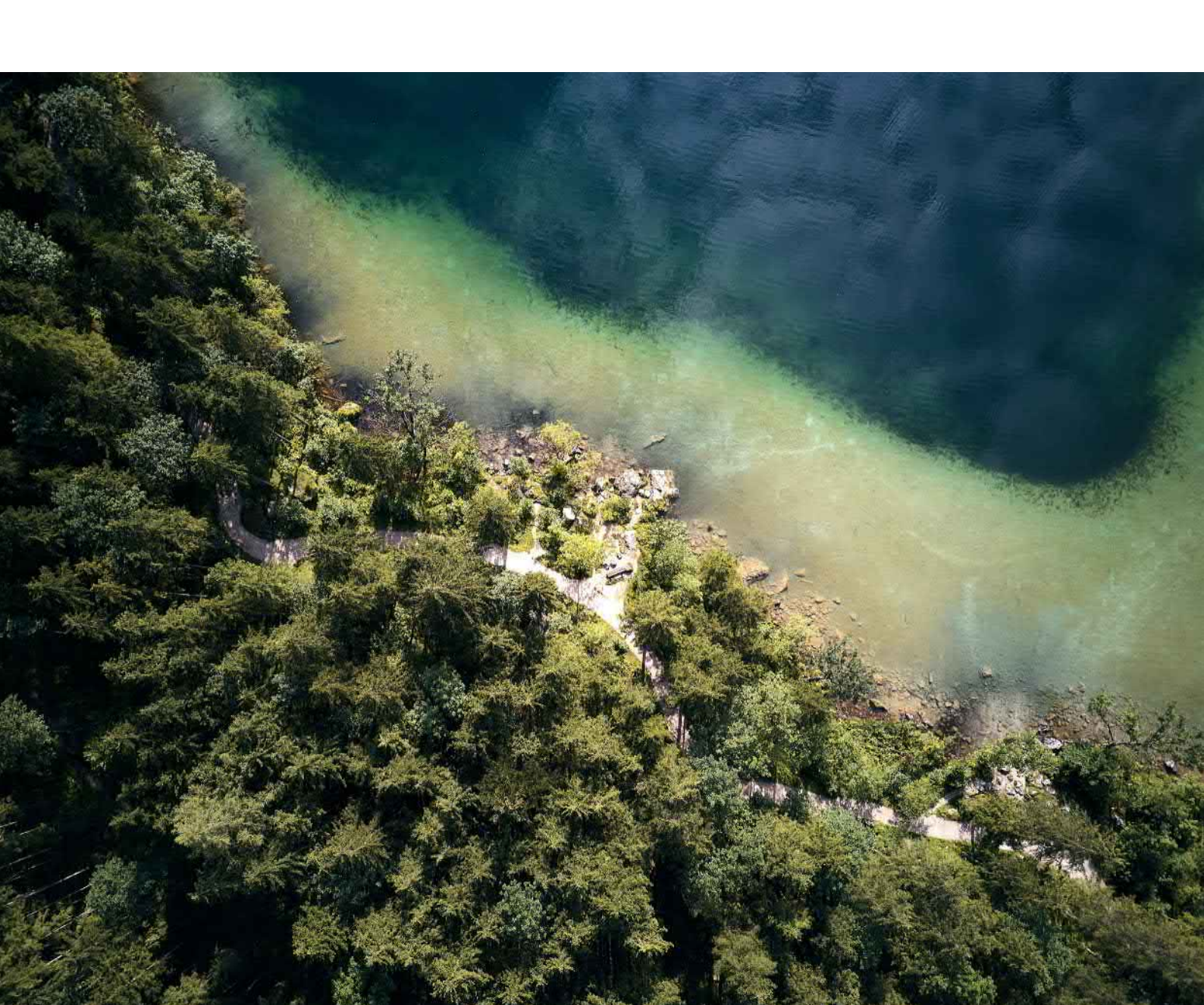
IN THE 'RACE-TO-ZERO' TO REDUCE
CARBON EMISSIONS AND REVERSE
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**THE COVID-19 CRISIS HAS SHOWN THAT
RAPID CHANGE IS POSSIBLE – IF WE WORK
TOGETHER AND PULL THE RIGHT LEVERS.**

**BY USING WWF'S 'MORE-HARM-THAN-
GOOD' LEAGUE TABLE AND 'SIGNIFICANT
HARM RATIO', DEBT CAPITAL MARKET
PROFESSIONALS CAN HELP SHAPE A
NEW PARADIGM.**

**WWF'S SCENARIOS EXPLORE
WHERE DEBT CAPITAL MARKETS
COULD, AND SHOULD BE, BY 2025.**



GLOBAL DEBT HAS
BALLOONED TO
REACH MORE THAN

USD **124+**
TRILLION
IN OUTSTANDING
FINANCING AND
INVESTMENT

DEBT CAPITAL MARKETS MATTER FOR THE FUTURE OF THE PLANET

The Planet's ecosystems, climate and biodiversity, are on the brink of default and world leaders are increasingly looking towards the financial sector for solutions.

In the run up to key international negotiations on climate this year and biodiversity next year¹, the financial sector can breathe new life into a set of global initiatives in a 'race-to-zero' to reduce carbon emissions and reverse nature loss.

Transforming global debt capital markets should be a priority for the financial sector. They are by far the largest pool of global capital with around USD 1 trillion changing hands every day. The people who control these transactions, including market practitioners, financial regulators, supervisors and central bankers, have a critical role to play.

This report argues that global debt capital markets can and must leverage their power to address the environmental challenges of our generation within this critical 'make-or-break' decade to 2030. Disastrous climate change and the alarming degradation of biodiversity and ecosystems need to be addressed urgently.

RAPID CHANGE IS ALREADY HAPPENING

RAPID CHANGE IS ALREADY HAPPENING IN DEBT CAPITAL MARKETS

Since WWF started to work on global debt capital markets in 2016², we have witnessed impressive momentum and our analysis in this new report reveals that rapid change is already happening.

Tremendous progress has been made. Market growth of a new type of 'labelled' debt capital market instruments has reached critical mass. These labelled bonds and loans finance projects with specific environmental, social or sustainability benefits, and are expected to represent more than 10 percent of global bond issuances in 2021³. However, that growth needs to broaden and accelerate as the vast majority of the instruments traded on debt capital markets today still provide very little, if any, information on their environmental impacts.

Markets have also grown in quality since 2016. Market guidance and standards have moved from flexible principle-based process guidelines to much more prescriptive, taxonomy-based standards with much tighter definitions of intended environmental benefits. Some of them are becoming regulated in major jurisdictions (e.g., China, EU and ASEAN).

Transparency and independent review of green claims have started to bring clarity on what is green enough. This has created a much clearer view on what is unsustainable and doing significant harm.

WWF BELIEVES THAT KEY DEBT CAPITAL MARKET ACTORS MUST SHIFT AWAY FROM 'BUSINESS AS USUAL' THAT CAUSES 'MORE HARM THAN GOOD'

Our analysis also shows that prevailing business models and practices 'do more harm than good'. Indeed, in the past five years the top 30 investment banks, which play a pivotal role in the origination and distribution of capital, have underwritten USD 4 trillion in fossil fuel debt, earning a total fee almost twice the amount generated from arranging or underwriting green transactions.

To shift to a greener financial system, leading actors in debt capital markets must be incentivized to rapidly reduce exposure to financing significant harm and increase activities in green capital raising.

To facilitate this shift, WWF has created the 'WWF More-Harm-Than-Good' league table and the 'Significant Harm Ratio'. These figures reveal that the largest players in the underwriting business are not necessarily the fastest and the most advanced in the 'race-to-zero' to reduce carbon emissions.

WWF'S CALL FOR COLLECTIVE ACTION TO HELP CREATE 'ZERO CARBON & NATURE- POSITIVE DEBT CAPITAL MARKETS'

The good news is that in debt capital markets a small number of people really can help save the planet. And the COVID-19 crisis has shown that rapid change is possible if we pull the right levers. But those key people will only do so if they feel mandated, empowered, and have 'permission' to take the steps required and pull those levers.

Building on the rapid progress we have seen in recent years, WWF has identified Rapid Change Levers for key actors to pull. Across five areas, we show how rapid change is already happening and can be swiftly amplified:

- Ambition must increase, with impact as the primary focus;
- Investors must rapidly shift their capital out of unsustainable entities and into green opportunities;
- Governments, financial regulators, supervisors and central banks must step up;
- Definitions and metrics must continue their journey to define a common language of sustainable finance;
- Transparency, confidence and integrity are critical for systemic change.

THE GAME-CHANGING ‘WHAT IF?’ QUESTIONS

WWF has created a series of future scenarios of a world in 2025 by asking the question ‘what if...?’ (see boxed text below). By the halfway point in the make-or-break decade the debt capital markets could be shifting to a net positive impact in the real world.

These questions are intended to provoke readers, challenging assumptions about what may happen, and provide a useful shared basis for debate. Some of the questions feel uncomfortable because they seem to point towards an uncertain and disruptive future. Some of the options described in these scenarios might be perceived as unthinkable today and would likely send shockwaves through the traditional debt capital markets.

FAST FORWARD: FOUR RAPID CHANGE SCENARIOS

If we don’t ask these questions, and decide to stick comfortably to ‘business-as-usual’, we won’t be prepared for the expected disruptions from a changing climate and collapsing ecosystems⁴.

That is why we have explored what could and should happen as soon as possible in debt capital markets, and hence how this small number of people can indeed save the Planet.

We start off with a scenario that describes **Business as Usual – using past experience to drive future action**, where weak mandates and vested interests continue to slow down any attempts for rapid change in the finance and investment ecosystem.

What if debt capital market practitioners, regulators, supervisors and central bankers forcefully and decisively acted on the International Energy Agency’s alarming call to ‘stop investing in fossil fuels to meet net-zero targets’?⁵ What if, as a result, debt capital markets started to finance only those parts of our economies that preserve, restore and protect the planet, and stopped financing those that harm it?

What if G20 governments as part of their ‘inevitable policy response’⁶ to address dangerous climate change decided to stop fossil-fuel investments and to develop taxonomies that define which debt capital market investments are green and which investments involve ‘significant harm’?

What if central bankers announced that as of 2025 at the latest, bonds that do not have transparency on their alignment with green definitions would no longer be eligible for the central bank’s asset purchasing programs or used as market collateral? Or if regulators required all bond issuers to report on climate- and nature-related risks and opportunities under the TCFD and TNFD frameworks?⁷

What if investor coalitions decided to announce that by 2025 at the latest, they will refuse to invest in debt capital market instruments that do not have transparency on their alignment with green definitions or inclusion of ambitious science-based targets for climate and biodiversity indicators?

What if the debt capital market teams and major investment banks systematically asked themselves whether or not refinancing fossil fuel assets is actually a good idea? What if they started worrying about the impacts of climate change on both their clients and the planet? What if they ultimately decide to ‘pull the plug’ on these deals?

In stark contrast, we paint four future scenarios for rapid change:

ENCYCLOPAEDIA

A global common language explores the crucial role that definitions and metrics play to define what is green, and hence what is unsustainable in finance and investment.

SCIENCE-BASED CENTRAL BANKING

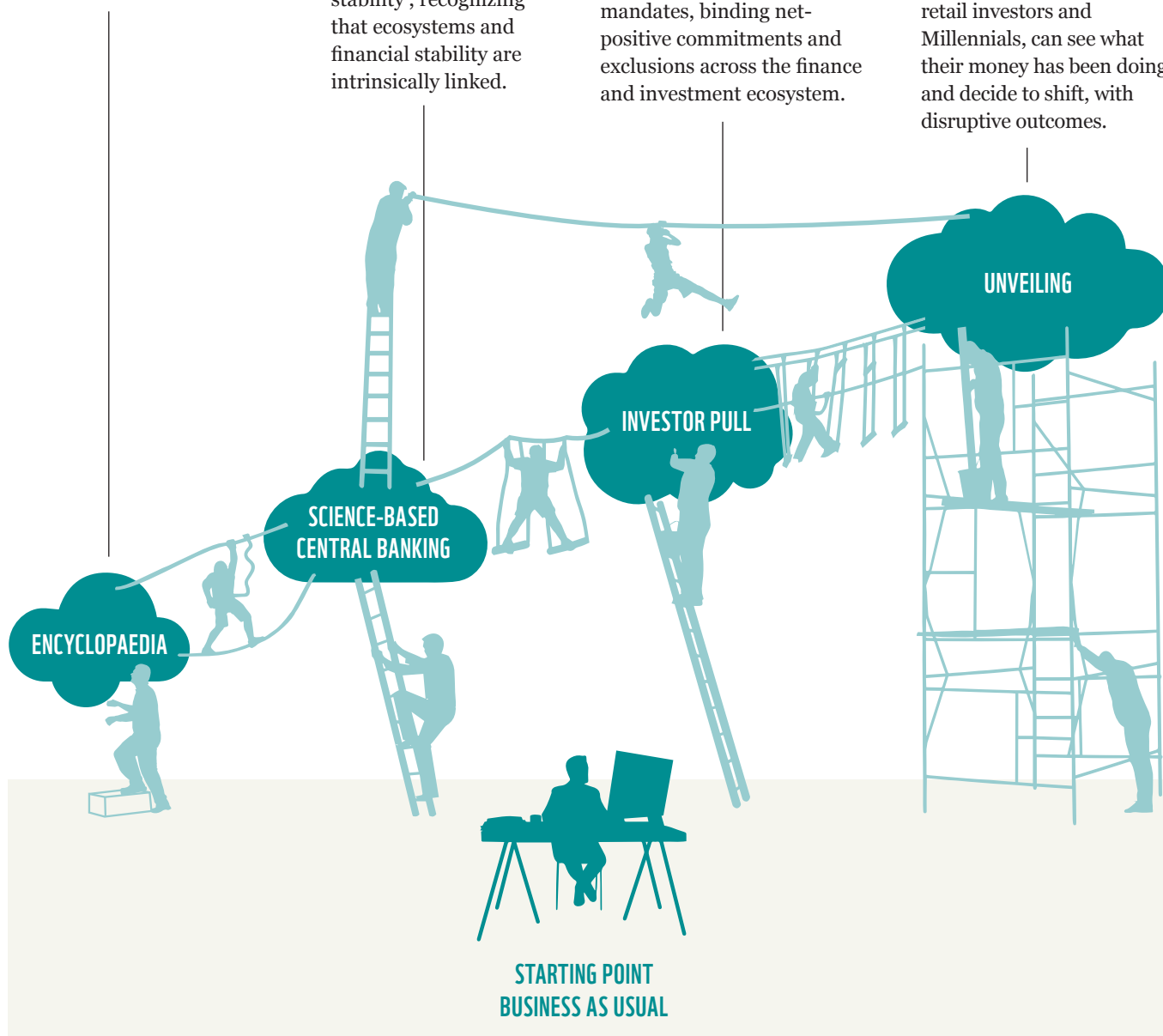
Looks at how central bankers can shift from 'market-neutrality' mandates to forcefully promote 'ecosystem-stability', recognizing that ecosystems and financial stability are intrinsically linked.

INVESTOR PULL

Coordinated efforts driven by global investor coalitions explores how investors, asset managers and investment bankers can step up to drive rapid changes in ESG-driven mandates, binding net-positive commitments and exclusions across the finance and investment ecosystem.

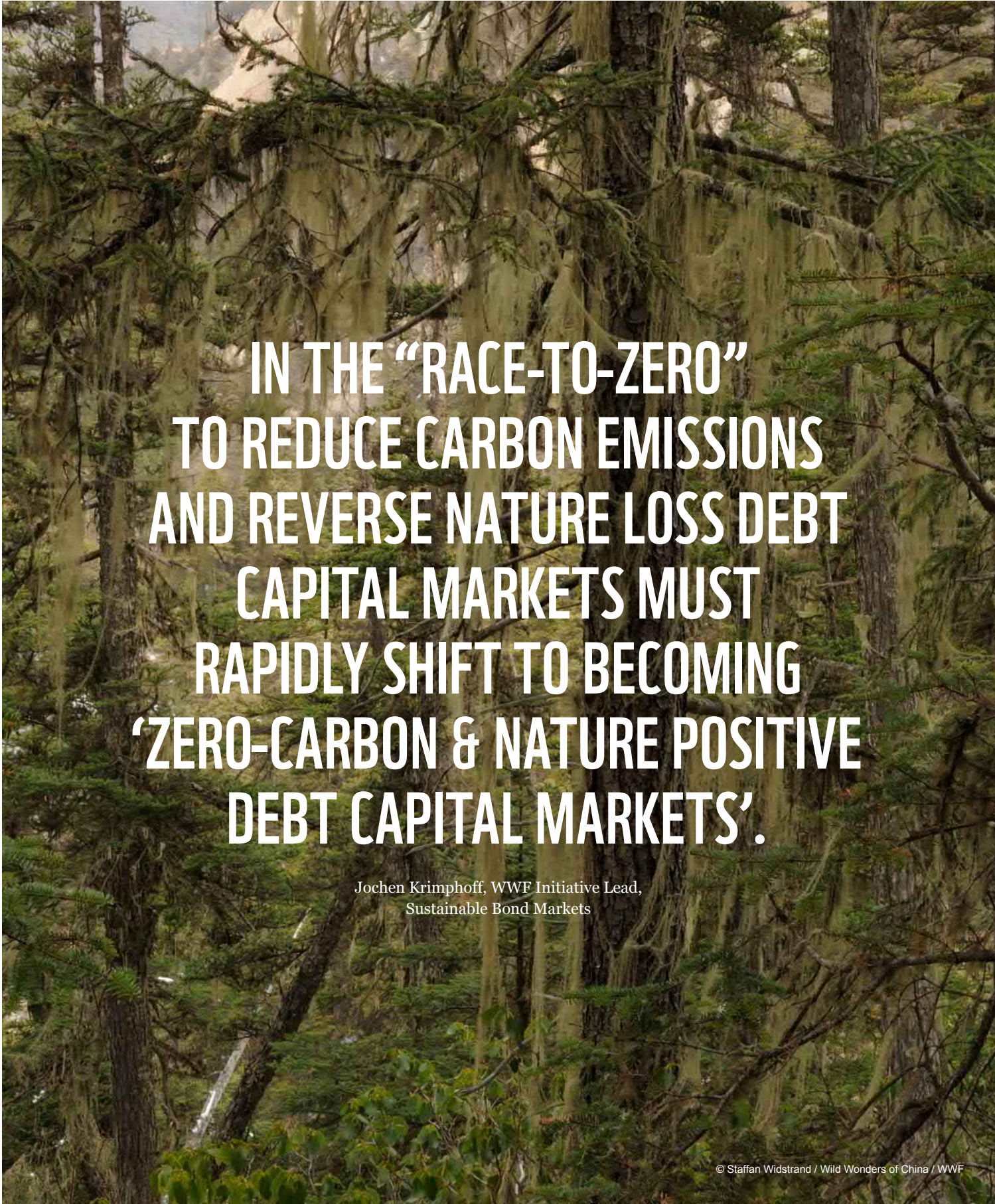
UNVEILING

Radical transparency drives fast-paced disruptive change enabled by innovation, technology, and big data shows how investors, in particular retail investors and Millennials, can see what their money has been doing and decide to shift, with disruptive outcomes.



As we seek to adapt to climate change that is hitting the world economy, we have yet to see the positive impact of 'green' debt capital markets. We have yet to figure out how they can help preserve, restore and protect the planet, rather than destroying it.

Debt capital market professionals collectively control the levers. They can decide to be part of the solution rather than continuing to be part of the problem.



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