Introduction to the Thematic Issue on Green Finance

One of the major challenges of the coming century is to develop a carbon neutral economy that will address global warming issues. To reach the goal that is the transition from fossil fuels dependence, significant investments are required, especially in the sectors that emit the most carbon (energy, transport, housing etc.). Finance has a key role to play in this process. The issue is, of course, to finance this energy transition but also to propose new frameworks to value assets, measure the performance of projects and manage their risks. In this context, companies, investors and academics have to face a new set of challenges.

For companies, global warming generates new growth opportunities but also major new risks that can be divided into three categories: physical risk, which concerns the destruction of assets due to extreme climatic phenomena; transition risk linked to the fact that companies must adapt their economic model in a short period of time; and legal risk, which relates to the possible lawsuits that companies could suffer, if they do not reduce their emissions sufficiently early.

For investors, a company’s level of carbon emissions is now key information that has a major impact on asset values. Investors know that they must incorporate the price of carbon into their investment decisions; not doing so could mean overvaluing assets that cannot be operated over time (stranded assets) or overvaluing companies whose economic model will have to be completely transformed.

For academics, global warming opens new research perspectives and will lead researchers to revisit the dominant theoretical frameworks. New questions have emerged touching on almost all areas of finance and will mobilize researchers for the next few decades.

Considering the significance of global warming and its impact on financing activities, company valuations, company solvency and also on risk management, “Bankers, Markets and Investors” launched a call for papers for a thematic issue on green finance. The submitted papers tackled many topics: carbon finance, green bonds, green investing, green regulation, stranded assets, and green and ecological accounting.

The editorial committee in charge of this special issue was composed of Jean François Boulier (BMI Chief Editor), Professor Sébastien Pouget, Professor Peter Tankov and Professor Franck Bancel. They have selected four articles that address important questions and illustrate the diversity of research on green finance. Among them, two articles focus on the valuation of carbon emissions: one analyses accounting practices related to climate change for investment portfolios and the other questions the impact of carbon prices on company valuations. The third paper argues that the current mainstream sustainable finance approach is disconnected from strong sustainability requirements, making it difficult to develop a climate finance system that is operational and in line with the challenges of climate preservation. The fourth investigates the financial performance of traditional and green energy indices from 2010 up to the current context of Covid-19.

These four papers include concepts, information and data that are useful for managers, investors and academics concerned by green finance issues. We hope this special issue will contribute to the development of the emerging field that is green finance.