



GREEN FINANCE

State of Play & Forward Look

A Cicero/amo overview | December 2021

cicero/amo
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INTRODUCTION

The UK's fiscal watchdog, the Office for Budget Responsibility estimated in July 2021 that the UK will need to invest £1.4 trillion between 2020 and 2050 to reach Net Zero, highlighting the significance of finance, both public and private, in the success of the Net Zero transition.

We have seen the Government use the momentum of the COP26 presidency to place the UK as a world leader in green finance and hopes for it to become the first Net Zero financial centre. In the landmark 'future of financial services' speech in November 2020, Chancellor Rishi Sunak detailed his goal to ensure the UK leads the world in "shifting finance towards a Net Zero future". This ambition was previously outlined in the UK Government's Green Finance Strategy, published in July 2019, which lays out the Government's focus on "aligning private sector financial flows with clean, sustainable and resilient growth."

However, it would be naïve to overlook the political friction around climate action, particularly when it comes to the cost of Net Zero. Though the Opposition and Government are in alignment on the need to tackle climate change, factions on the Conservative backbenches have expressed discomfort with the cost to taxpayers and the public purse since the Treasury [published](#) its Net Zero Review in October 2021 analysing the cost of Net Zero.

Much of the 2019 intake of MPs are concerned with the effect of Net Zero legislation on individuals in their seats – with more industrial economies – and the focus on finance and financial services risks being framed as a 'London issue.' Additionally, Chancellor Rishi Sunak is a natural fiscal hawk – and major spending commitments to reach Net Zero jar with his instincts. In this political context, increasing pressure is being placed on the financial services industry to drive private capital towards Net Zero goals through ever growing numbers of regulatory initiatives, legislative measures and working groups.

Amid this ambition for the UK to be a world leader on green finance, questions remain around whether developments so far and the UK's proposed green finance timeline have placed the country on track to achieve this aim, with a recent report from the New Financial think tank showing the City of London falling behind its EU counterparts across the majority of Environmental, Social and Governance (ESG) metrics.

GET IN TOUCH...



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STATE OF PLAY

Analysis

The practical task of aligning the UK's financial system with its climate change commitments has been taking place for the past several years through the introduction of new regulations and standards around sustainability. The UK's Green Finance Strategy was informed by the private sector in recognition of its crucial role in developing these regulations and standards. Building on this private sector involvement, in June 2021 the Government [established](#) the Green Technical Advisory Group (GTAG) to oversee the Government's delivery of a Green Taxonomy, which will set the bar for investments that can be defined as environmentally sustainable. It will tackle the longstanding issue of greenwashing and make it clear to investors and consumer how firms impact the environment.

So far, the UK Government has undertaken meaningful steps to begin the process of greening the UK's financial system and has crucially recognised the importance of working with the private sector in taking these steps. The rest of the decade will be decisive in determining the future of green finance in the UK and, although the UK Government appears determined to seize this opportunity, the volume of regulatory and legislative measures have yet to materialise into a coherent plan for meeting this goal.

Key Developments

- **Green Finance Taskforce:** In September 2017 the UK Government set up a Green Finance Taskforce chaired by leading finance expert and former Lord Mayor of the City of London, Sir Roger Gifford, which sought to accelerate growth of green finance. Its independent [report](#) published in March 2018 provided a series of recommendations on how the Government and the private sector can work together to establish green finance as an integral element of UK financial services.
- » **Green Finance Strategy:** Based on the Taskforce's recommendations in July 2019, the Government launched its [Green Finance Strategy](#), which sought a twin objective of strengthening the UK's financial sector and aligning private sector financial flows with clean, environmentally sustainable and resilient growth, supported by Government action.
- » **Green Bonds:** One of the key recommendations of the Green Finance Taskforce was that the Government issue a sovereign green bond. The Government set out its plans for the UK's first Green Gilt in the [Green Financing Framework](#), published in June 2021, which is a 12-year bond. In September 2021, it was [announced](#) that £10 billion was raised from the sale of the Gilt, which is the largest inaugural green issuance by any sovereign.
- **Climate change reporting:** In June 2017, the Task Force on Climate-Related Financial Disclosures (TCFD) set out [recommendations](#) to improve organisations' disclosures of climate-related financial risks and opportunities. The 11 overarching recommendations sit across four thematic areas – governance, strategy, risk management and metrics & targets.
- » **UK interim response:** In November 2020, HM Treasury subsequently published its [interim report](#), outlining the UK's approach to implementing these recommendations.
- » **Mandatory reporting:** In October 2021, it was announced that new [legislation](#) brought forward by the UK Government will make it mandatory for financial institutions and UK registered companies with over 500 employees and £500 million in turnover to disclose climate-related financial information from 6 April 2022. New mandatory disclosure requirements will be in line with the TCFD recommendations. The

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UK will become the first of the G20 countries to enshrine this in law.

- » **Pensions schemes & Paris alignment:** Following updated guidance from the TCFD, the Government launched a [consultation](#) in October 2021, seeking views on whether pensions schemes should be required to describe the extent to which the assets they own are aligned with the Paris Agreement and achieving 1.5 degrees to scheme members. These new requirements would come into force from 1 October 2022.
- **Green Finance Roadmap:** In October 2021, the Government published '[Greening Finance: A Roadmap to Sustainable Investing](#)', in which the long-term ambition was set out to green the financial system, with particular emphasis on improving the information available to financial decision-makers.
 - » **SDRs:** The roadmap centred on a new 'Sustainability Disclosure Requirements' (SDR) regime, requiring companies to disclose how their climate transition plans align with the UK Government's Net Zero commitment, initially on a 'comply or explain' basis.
 - » **Green Taxonomy:** The report also outlined the Government's long-awaited plans to implement a Green Taxonomy, the criteria which specific economic activities must meet to be considered environmentally sustainable and therefore 'Taxonomy-aligned'. It aims to create clarity and consistency for investors, improve understanding of environmental impact and provide a reference point for companies.
- **UK Stewardship Code 2020:** In October 2019, the Financial Reporting Council (FRC) [strengthened](#) the UK's Stewardship Code which sets stewardship and reporting standards for asset owners, asset managers and the service providers that support them. The updated Code established a series of 'apply and explain' principles and refocused the Code on ESG issues introducing a principle that asset managers and owners must "systematically integrate stewardship and investment". The first cohort of signatories to the updated Code, [unveiled](#) in September 2021, cover £20 trillion assets under management.
- **UK National Infrastructure Bank:** In November 2020, the UK Government [announced](#) in its National Infrastructure Strategy plans to establish a National Infrastructure Bank that will co-invest alongside the private sector in key infrastructure projects. The Bank was [launched](#) on an interim basis in June 2021 with a key objective of tackling climate change, meaning it will likely play an important role in supporting investment in green infrastructure.
- **Net Zero-aligned Financial Centre:** Most recently at COP26, Chancellor Rishi Sunak [announced](#) that the UK will become the "first Net Zero aligned financial centre" and would move towards making it mandatory for businesses to publish clear deliverable plans to meet Net Zero. It is expected such plans would need to involve "high-level targets" for becoming greener, "interim milestones" and "actionable steps" on delivery.
 - » **Transition Plan Taskforce:** Further details will be [published](#) by an independent Transition Plan Taskforce "in due course" which will report by the end of 2022. This group will bring together industry and academic leaders with regulators and the third sector to develop a 'gold standard' for transition plans and associated metrics, coordinating with international efforts under the Glasgow Financial Alliance for Net Zero (GFANZ). European think tank E3G and the Centre for Greening Finance and Investment (CGFI) will act as the secretariat, and the Financial Conduct Authority (FCA) will also be formally involved.



LOOK AHEAD

Analysis

With the verdict split on the success of the UK's climate summit, attention is now rapidly turning to how Government can win tangible victories on climate action; and how it can finance them.

Looking to the future regulatory landscape in the UK, the greening finance agenda is likely to be intensified with the Government having [committed](#) to publishing an updated Green Finance Strategy next year which will set out a pathway to 2050 for the harmonisation of the financial system with the UK's Net Zero commitments. Elsewhere, an independent [Transition Plan Taskforce](#) will be established next year to elaborate on Government's [plans](#) to mandate the publication of clear and deliverable Net Zero transition plans by firms in 2023. In a similar vein, the FCA is due to conduct stakeholder engagement in early 2022 to promote "well-designed, well-governed, credible and effective transition plans" in the financial sector that are aligned with the Government's own Net Zero commitments. We are also set to see progression on the UK Green Taxonomy, following the publication of the Greening Finance Roadmap,

setting out the criteria by which economic activities may be judged environmentally sustainable. The Taxonomy centres around six core environmental objectives, the first two of which the Government is due to consult on early next year, and the remaining four in 2023.

While the doors might have closed on COP26, Net Zero remains firmly on the Government's agenda. Going forward, the Government will look to place the financial sector at the forefront of its ambitions to make the UK a global leader on green finance. While in preceding years high-level pledges were welcomed, the Government will likely now expect - with increasing fervour – credible, tangible Net Zero plans from business with a clear pathway for implementation. The Government's agenda on green finance is gathering speed as demonstrated by the Greening Finance Roadmap and shows little sign of slowing, and the financial sector must align itself with this speed or face being left behind.

GET IN TOUCH...



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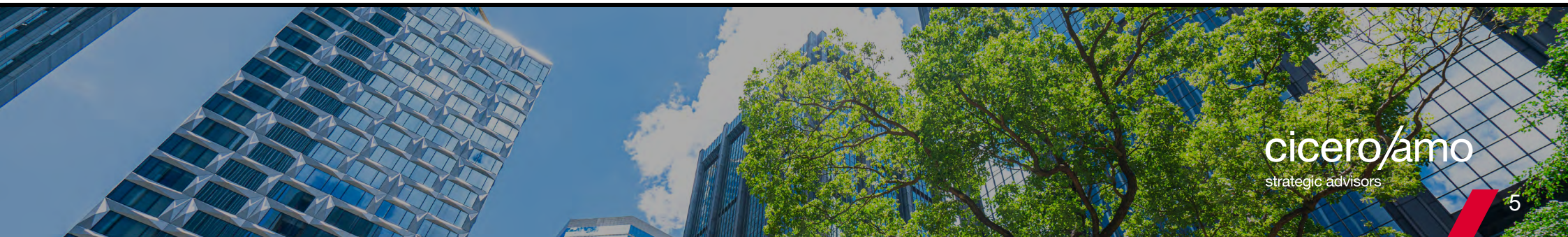
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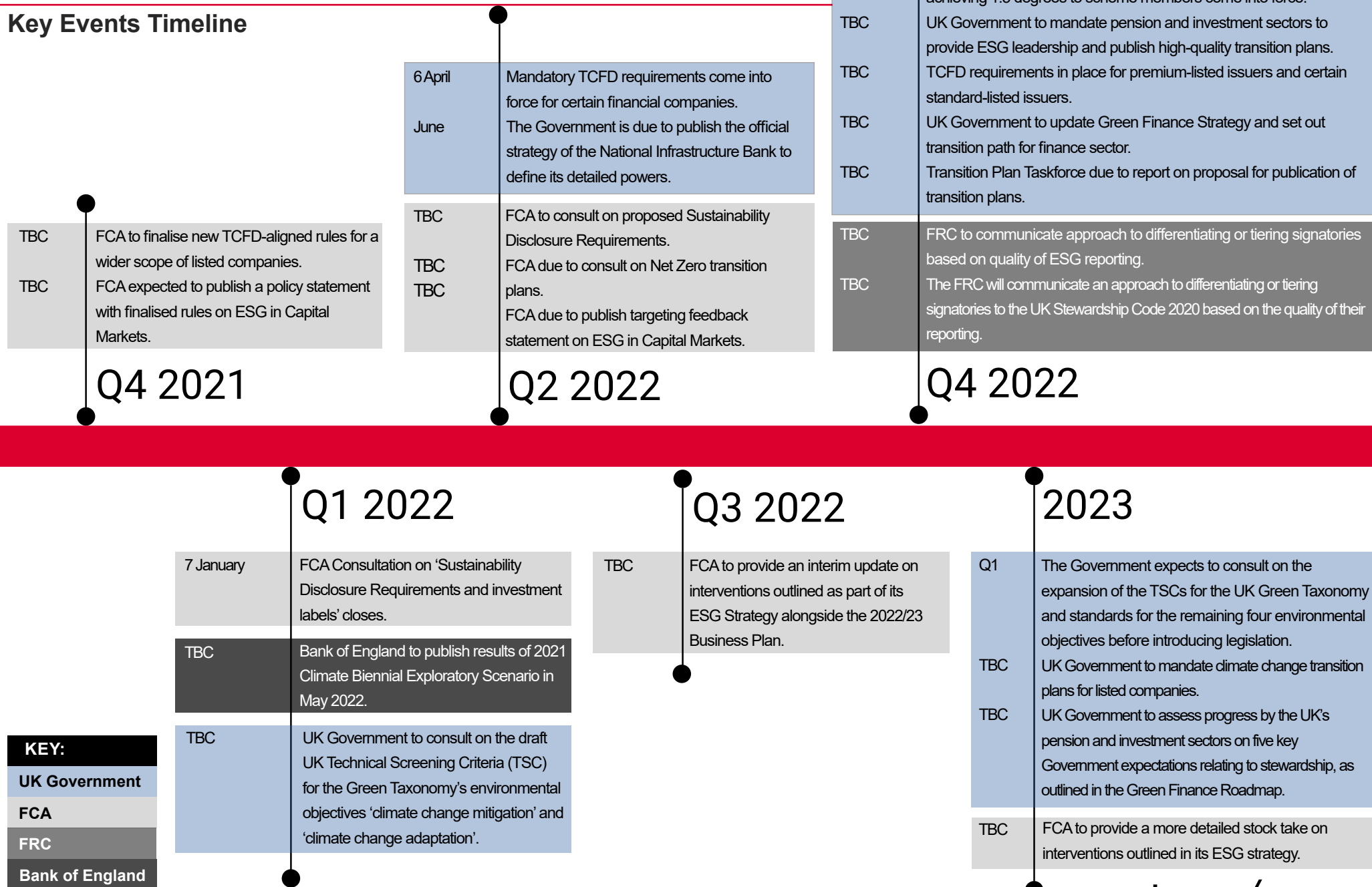
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LOOK AHEAD (CONTINUED)

Key Events Timeline



Cicero/amo has extensive experience in supporting companies in the policy landscape. Please [do get in touch](#) to discuss this document in greater detail or if you would like to find out more about how we can support your organisation.

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