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BEIS Green Finance Strategy team
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Sent via email to evidence.gfs@beis.gov.uk

Dear BEIS Green Finance Strategy team

Update to Green Finance Strategy – Call for Evidence

I am writing to respond to BEIS's call for evidence on its update to the Green Finance Strategy on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices by institutional investors. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. Among other activities, we work with the financial services sector to promote integration of sustainability factors in investment decisions, long-term stewardship of assets and the consideration of the views of clients, beneficiaries and pension scheme members.

1. What are the key characteristics of a leading global centre for green finance?

We see key characteristics as including (although not limited to) the following:

- **The financial system has overall alignment with a 1.5 degree-warmed world, with effective provision for nature and a just transition.** As set out in the recent NGO joint statement signed by ShareAction,[1] this would entail an ambitious, whole-of-government plan for aligning financial flows with a 1.5C transition pathway, and halting and beginning to reverse the decline of biodiversity by 2030. This should be regularly assessed with independent mapping of progress and investment gaps across public and private finance. The primacy focus should be on decarbonisation, particularly on absolute emissions reduction. While investment in decarbonisation technologies may be necessary, it should not be at the expense of emissions reduction. Policymakers should continue to monitor and adjust as necessary with latest science.
- **Regulators have a clear statutory objective (as opposed to a regulatory principle) embedding net-zero and nature-related goals as a central part of their work.** The proposed replacement for the Financial Reporting Council, ARGA,

[1] Not yet published at the time of writing.

should be given stronger enforcement powers for its work monitoring stewardship and corporate governance.

- **Financial institutions consider and manage, through effective stewardship, systemic environmental risks.**
  - As the Aldersgate Group identifies in its 2022 report,[2] it is critical that financial institutions engage with systemic risk rather than managing portfolios by divesting from high-carbon assets.
  - We recommend that the baseline standard of stewardship for asset owners is raised beyond the minimum standards set by the UK's implementation of the Shareholder Rights Directive. This baseline standard should draw on key elements of the FRC's Stewardship Code and should be a legal requirement for all large institutional investors. We discuss this further in question 9.
- **Financial institutions are required to consider negative impacts on the environment and society on a par with their financial returns.**
  - We recommend that the UK Government consults on embedding these considerations in the Green Finance Strategy. This should include reforming the law around investment decision-making for fiduciary investors and issuing guidance to support institutions with managing trade offs between returns and impacts. ShareAction's Responsible Investment Bill[3] provides an example of how this could be achieved via legislative reform, broadening the concept of beneficiaries' 'best interests' to incorporate the benefits of living in a healthy, stable, secure society and environment. We discuss this further in question 9.
- **The system of reporting standards is based on double materiality, incorporating both risk and impact.** A double materiality approach creates sustainability reporting standards which take into account both the impact of sustainability issues on companies and also the impact of companies on the planet and its people. We strongly support the approach taken at EFRAG with the Corporate Sustainability Reporting Directive (CSRD) and would encourage the UK Government to embed this within its approach to international standards, along with ISSB. We discuss this further in question 9.
- **Policymakers have harnessed the momentum of voluntary net-commitments to establish effective, mandatory transition planning and capital requirements.**
  - This should include a robust, detailed definition of transition planning that focuses on the overall objective of decarbonising the economy and sets out how it should be funded. It should aim to push climate change to the top of corporate boards' agendas, strengthen investor stewardship, bolster the regulatory regime that underpins UK financial services and have regard to broader stakeholders.
  - It should confirm that financial institutions cannot make credible net-zero commitments unless:
    - they implement financing restrictions in relation to coal and oil & gas expansion;
    - they phase down fossil fuels on timelines aligned with 1.5C pathways;

[2] https://www.aldersgategroup.org.uk/publications/post/financing-the-future-driving-investment-for-net-zero-emissions-and-nature-restoration/?origin=/publication/type/reports/
[3] https://shareaction.org/policies/responsible-investment-bill-the-change-we-need

    - their finance sector transition plans lead to absolute emissions reductions (as opposed to emissions intensity reductions).
  - It should particularly consider the extent to which Just Transition considerations could be included in corporate and investor transition plans. For example, in the case of fossil fuel companies, transition plans could include information of how their workforce is set to change, and what measures will be put in place to ensure this is fair (i.e. retraining programmes for oil rig engineers). Companies could report on how they are engaging in a social dialogue with their unions, broader workforce, local government and communities in preparation for the transition.
  - Policymakers should also increase capital requirements for assets that carry particularly high physical and transition risks, to safeguard against rising risks and incentivise investments aligned with a low-carbon transition. Following a basic risk management logic, the Basel Committee on Banking Supervision (the global standard setter for the regulation of banks) has recommended that the one-for-one capital requirements be applied to certain cryptocurrencies' exposures. Applied to climate change exposure, such a rule would mean that for each euro/dollar that finances fossil fuels, banks and insurers should have a euro/dollar of their own funds held liable for potential losses.[4]
- **Financial products are classified through a clear and robust green taxonomy.** This should be science-based and include "do no significant harm" measures. It should exclude gas and nuclear from lists of sustainable activities, as this would muddy classifications and send unclear signals to financial markets,[5] as discussed further in question 30.
- **Learnings and leadership from a leading global centre for green finance are reflected in domestic policy and public financing to enable amplification and consistency.** Public and private financing both have critical roles to play in contributing the funding necessary for the transition, and policymakers should ensure they are sending consistent policy signals to financial markets. As E3G have commented, an effective transition will require strategic public investment in tricky markets like the built environment and nature. We also need robust due diligence in place across all business units with red lines around what does not constitute green finance, and the coming green taxonomy should apply equally to the public sector. We also need to put in place clear phase-out dates for coal financing, and start

2. Do you consider the UK's green finance regulatory framework to be world-class?

We have welcomed the UK Government's commitments to develop a world-leading green finance regulatory framework through its Greening Finance roadmap and accompanying COP announcements on ambitions to make the UK the world's first Net-Zero aligned Financial Centre.

However, the UK Government is currently moving forwards with policies that will undermine this reputation, such as prioritising competitiveness and growth over sustainability in the Financial Markets and Services Bill,[6] and prioritising nuclear, offshore

[4] https://shareaction.org/policies/going-beyond-insurers-voluntary-initiatives
[5] https://financeinnovationlab.org/wp-content/uploads/2022/06/Joint-CSO-statement-on-UK-Green-Taxonomy-31st-May-2022.pdf
[6] https://shareaction.org/policies/response-to-hmt-consultation-on-financial-services-future-regulatory-framework

wind, and new oil and gas over onshore wind and home insulation in the British Energy Security Strategy. This detracts from the overall impression of the UK as a centre for green finance and send the wrong signals to financial markets. The current energy crisis presents an opportunity to address and scale up investment in areas such as electric vehicles, renewable energy, heat pumps and residential housing insulation, but it is not clear to us that the UK is stepping up to this challenge as a green finance centre. We discuss this in more detail in our recent blog on the British Energy Security Strategy.[7]

To cement the UK's reputation as a green finance centre, we recommend that the Government centres sustainability in the Financial Markets and Services Bill by making it a statutory objective rather than a regulatory principle.[8] This will support the regulators to take prompt and efficient action on managing the risks and impacts associated with the climate crisis in relation to the financial system. The Government should also ensure that broader energy and climate policy decisions are sending consistent, stable messages around decarbonisation to financial markets.

3. To what extent does the UK's private and public sectors have appropriate skills/capacity to attract international green finance flows?

Skills and capacity on green finance are improving but we believe there is still a significant dearth in both private and public sectors. It is not always clear even within sustainability teams that they understand the expediency needed for change or that the organisation's C-Suite gives them the audience they deserve. The recent HSBC story[9] has undermined confidence that some 'experts' practice what they preach, that finance treats the climate emergency with the seriousness it deserves and that climate-aligned practices are embedded in business planning.

We support the Aldersgate Group's recommendation that financial institutions should focus on recruiting new staff members with backgrounds in carbon accounting, ecology and climate risk management, and offer existing members across departments accredited training to help them to better understand these issues. The UK Government should undertake a review of the training on green finance available for those in professional services and assess whether a recognised standard is needed.

4. What are the UK's comparative strengths and weaknesses in its green finance offering compared to other international financial centres?

The UK's strengths include a supportive and evolving regulatory environment, with investment decisions increasingly taking account of ESG factors and a developing range of green financial products. The risks associated with the climate crisis are increasingly no longer seen as separate and peripheral. Financial and corporate regulation, such as TCFD and transition planning requirements, will continue to be integral to this shift.

That said, in 2019, the City's banks and asset managers provided loans and investments for projects and companies that emitted 805 million tonnes of CO_2 in 2019: almost twice the annual net emissions of the UK.[10] Regulation based on assessment of financial risk

[7] https://shareaction.org/news/uk-governments-energy-security-strategy-is-a-missed-opportunity-to-address-social-and-environmental-crises-heres-why
[8] https://shareaction.org/policies/response-to-hmt-consultation-on-financial-services-future-regulatory-framework
[9] https://www.theguardian.com/business/2022/may/22/hsbc-suspends-head-of-responsible-investing-who-called-climate-warnings-shrill
[10] https://www.newstatesman.com/politics/2021/05/city-london-would-be-ninth-largest-emitter-co2-if-it-were-country

alone is not sufficient to address this situation. It is critical that UK financial institutions and companies consider their impact on the climate crisis as well as the financial risks it entails. A recent ShareAction report found that the majority of the world's 75 largest asset managers are failing to consider and account for the negative impacts their investments are having in the real world.[11]

Moreover, addressing the runaway rate of biodiversity loss both domestically and internationally is critical to meeting our net-zero goals and this is far from a central part of the agenda for most financial institutions. ShareAction's report, *The Point of No Returns IV – Biodiversity*[12] found that 68 per cent of the world's largest asset managers have a public investment policy which includes no reference to biodiversity and no asset managers have an overarching dedicated policy on biodiversity covering all portfolios under management.

One recent UK-led finance sector initiative which could prove either a strength or a weakness is GFANZ, the voluntary coalition of global financial institutions which have made commitments to "accelerating and mainstreaming the decarbonisation of the world economy and reaching net-zero emissions by 2050." GFANZ has huge potential to affect change considering its size and geographic footprint. It convenes 450 financial institutions across banks, investors and insurance companies, representing over $130 trillion assets under management. However, the UK government needs to use its regulatory teeth to scrutinise GFANZ and hold them accountable: voluntary-led initiatives are not sufficient. GFANZ consists of voluntary initiatives – members commit to a set of guidelines, but there are limited accountability mechanisms in place in the case of inaction. According to Reclaim Finance, only 60 out of 240 of the largest GFANZ members have any policy excluding support for companies developing new coal projects. Of these 60, just 11 have adopted robust policies to end financial services for all companies building new coal mines, plants and related infrastructure. Six of the eight top holders of stocks and bonds in the global coal industry as of November 2021 were GFANZ members.[13]

What are these are for:

a) Asset management

In ShareAction's recent ranking of the world's 75 largest asset managers on their responsible investment performance,[14] the UK's managers receive the third highest average ranking. While the report does not explore the specific reasons for this, it is likely to result from the supportive regulatory environment referred to above, particularly the Government's messaging around regulating on TCFD disclosure.

However, five of the 12 UK managers assessed in the report fall in the bottom half of the ranking, showing that while some UK investors are striving for higher standards, policymakers must act to bring laggards up to a more acceptable level. Moreover, a ranking is by its nature relative: a better-than-average performance does not mean that the UK's asset managers are conducting their investment activities in a way that is consistent with reaching the UK's overall environmental commitments. The report notes that no asset

[11] https://shareaction.org/reports/point-of-no-returns-a-ranking-of-75-of-the-worlds-asset-managers-approaches-to-responsible-investment
[12] https://api.shareaction.org/resources/reports/ShareAction-COP-26-briefing-biodiversity.pdf
[13] https://reclaimfinance.org/site/en/2022/04/21/one-year-later-carney-bloomberg-must-show-leadership-to-stop-gfanz-dithering/
[14] https://api.shareaction.org/resources/reports/Point-of-no-Returns.pdf

manager assessed demonstrates leadership across its entire responsible investment approach, many managers are still not taking the basic steps in appropriately managing climate risks and they are all failing to grasp the systemic threat posed by biodiversity loss.

c) Banking

ShareAction research has found that European banks have financed the largest O&G companies by upstream expansion plans with over US$400 billion since 2016. Two of the UK's four largest banks, both NZBA members, are leading the way – HSBC comes top followed by Barclays in terms of finance provided. These two UK banks are responsible for a quarter of all financing within Europe. Between 2016-2021, HSBC and Barclays provided US$107.44 billion to 50 oil & gas expanders. Also, 24 of the largest European banks provided US$33 billion to oil & gas expanders since joining the alliance last year. Trends suggest UK and European banks show no sign of stopping – on average, financing in 2021 remains consistent with pre-pandemic levels.[15]

d) Insurance

Risk management is at the heart of insurers' business. Yet insurers are still not adequately considering – and are in fact actively compounding – the greatest risk humanity faces today: climate change and its irreversible consequences. While UK insurers performed comparatively well in ShareAction's 2021 survey of the 50 largest global insurers,[16] no insurer received an A or AAA rating and generally "performance is poor across the board". Fewer than half had a climate change policy, and only a third referred to their underwriting activities in these policies. 13 per cent made net-zero commitments, but these usually only covered investment activities. Fewer than half of surveyed insurers had carried out scenario analysis, used any kind of climate-related metrics, or adopted policies introducing restrictions on coal. None of the assessed insurers had introduced restrictions on conventional oil and gas, and only a small percentage excluded tar sands, shale oil or Arctic oil. None had adopted a formalised approach to biomass.

Even members of the voluntary initiative Net Zero Insurance Alliance (NZIA) fall short of responsible investment and underwriting standards. Of the NZIA's 25 members, just five – Allianz (Germany), AXA (France), Hannover RE (Germany), Swiss RE (Switzerland) and Zurich (Switzerland) – have underwriting policies across all four fossil fuel (sub) sectors: coal, O&G, tar sands, and Arctic sources. This is troubling not purely from a climate perspective, but from a financial perspective too. The value of insurers' assets could fall eight per cent in the most benign global warming scenario, but 15 per cent under the most extreme scenario.

Solvency II is an opportunity to design mandatory sustainability policies for insurers, such as increasing capital requirements for assets that carry particularly high physical and transition risks. We discuss this further in question 1.

5. How can the UK government measure progress towards becoming a leading global centre for green finance?

[15] https://shareaction.org/news/net-zero-banks-continue-to-finance-oil-gas-expansion-ignoring-climate-scenarios-and-posing-huge-risks-to-investors

[16] https://api.shareaction.org/resources/reports/Insuring-Disaster.pdf

The UK government should track the reduction of financed emissions in line with the emission reductions required by the IPCC. We support WWF's recommendation in its 2021 report, *The Big Smoke: The Global Emissions of the UK Financial Sector,*[17] that HMT should report to Parliament each year on whether financed carbon emissions for the UK regulated financial institutions has increased or decreased and whether this poses any systemic financial risks for the UK financial system.

Companies could also be brought before the government or select committees annually to explain progress towards their net zero goals as outline in their transition plans, and explain learnings where they miss targets. We discuss this further in our briefing on fossil fuel financing.[18]

7. How can the UK support a financial system that leverages private investment to meet the UK's climate and environmental objectives?

The Government can directly create opportunities to invest, create clear and consistent policy on financing green, and influence investment decisions through standard setting on green investments.

The issuing of two green bonds for £16bn in 2021 was welcome but there is scope to expand. The Climate Change Commission has estimated that additional capex investment for net zero technologies must increase to £50bn/year by 2030.[19] Additional green bonds could support further investments in clean technologies. Both France and Germany lead on the UK on capital raised through sovereign green bonds[20] and the fact that the order book for the UK's second green gilt was 12 times oversubscribed[21] shows the strong investor appetite for further green bonds here. Future bonds issued to finance climate and environmental objectives, or the objectives of the UK energy security strategy, should continue to exclude new fossil fuel exploitation and exploration as per the framework for existing bonds.[22]

Clear and consistent policy on financing green will send the right signals to attract private investment. While government policy has shown strong support for key technologies including Hydrogen and CCUS, we are concerned that support for new oil and gas in the energy security strategy sends a mixed message to investors about the Government's confidence in clean and sustainable energy. This could divert finance away from green, towards precisely the energy sources we must avoid if we are to align with net zero.[23]

The Government can steer private finance with clear guidance for investors. Sustainability Disclosure Requirements, transition plan reporting and the UK Green Taxonomy can all support investors to align their portfolios. The UK Green Taxonomy will only steer finance in the right direction, however, if the activities included are truly sustainable. Including natural gas would compromise the taxonomy's credibility and send confusing messages to

[17] uk_financed_emissions_v11.pdf (wwf.org.uk)
[18] https://api.shareaction.org/resources/reports/Fossil-Fuel-Financing_Policy-Briefing.pdf
[19] https://www.theccc.org.uk/wp-content/uploads/2020/12/Finance-Advisory-Group-Report-The-Road-to-Net-Zero-Finance.pdf#page=15
[20] https://www.climatebonds.net/files/reports/cbi_global_sotm_2021_02f.pdf#page=26
[21] https://www.gov.uk/government/news/second-uk-green-gilt-raises-further-6-billion-for-green-projects#:~:text=The%20order%20book%20was%2012,green%20bonds%20in%20the%20world.
[22] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002578/20210630_UK_Government_Green_Financing_Framework.pdf#page=18
[23] https://www.iea.org/reports/net-zero-by-2050

investors.[24] The sooner these measures can be introduced, the sooner they can begin to attract finance for sustainable businesses.

8. How can the UK support a financial system that leverages private investment to meet the objectives of the British Energy Security Strategy, including in areas such as nuclear, hydrogen, carbon capture and storage and domestic oil and gas production, to reduce our reliance on imported fossil fuels as part of a smooth energy transition?

We do not support the British Energy Security Strategy's intentions to invest in new oil and gas projects. This represents a missed opportunity to direct finance towards clean and sustainable energy sources, which would provide the UK with long-term energy security, and instead sends a mixed message to investors about the UK's faith in green energy. This could do harm to the Government's important efforts to scale up renewable hydrogen and CCUS pilot projects by attracting finance and building investor confidence.[25]

9. What barriers are there to unlocking private investment to support the UK's energy security, climate and environmental objectives?

- **Stewardship standards are still inadequate among institutional investors given how important these activities in reaching our goals for decarbonising the economy**.
    - Our 2022 report on climate engagement reporting among CA100+ members[26] (whom one would expect to demonstrate the highest levels of stewardship) showed that over one-third of investors surveyed did not clearly specify climate change as a thematic engagement priority. Forty-nine investors (82 per cent) did not specify escalation steps for unsuccessful engagement, even though Escalation strategies are necessary to give corporate engagement teeth and prevent it from being a 'tea and biscuits' affair.
    - We recommend that the baseline standard of stewardship for asset owners is raised beyond the minimum standards set by the UK's implementation of the Shareholder Rights Directive. This baseline standard should draw on key elements of the FRC's Stewardship Code and should be a legal requirement for all large institutional investors.

- **The tension between securing returns and avoiding negative effects or 'impacts' is a fundamental challenge for responsible investors**.
    - Financial return matters to retail savers. However, if investors prioritise return to the detriment of a safe and stable environment and global society, they externalise costs that still need to be accounted for somehow. We cannot mitigate catastrophic climate and biodiversity crises without addressing this elephant in the room.
    - We recommend that financial institutions are required to consider negative impacts on the environment and society on a par with their financial returns. ShareAction's Responsible Investment Bill[27] provides an example of how this

[24] https://www.iigcc.org/news/leading-investor-groups-call-for-natural-gas-to-be-excluded-from-the-uks-green-taxonomy/
[25] https://shareaction.org/news/uk-governments-energy-security-strategy-is-a-missed-opportunity-to-address-social-and-environmental-crises-heres-why
[26] https://shareaction.org/reports/power-in-numbers-an-assessment-of-ca100-engagement-on-climate-change
[27] https://shareaction.org/policies/responsible-investment-bill-the-change-we-need

could be achieved via legislative reform, broadening the concept of beneficiaries' 'best interests' to incorporate the benefits of living in a healthy, stable, secure society and environment.

- **The corporate reporting system is currently disorganised and this leads to inconsistent and limited reporting.**
    - There is a mixture of voluntary and mandatory standards across regions. This leads to inconsistent and limited reporting, prevent investors from having broad access to the high quality, comparable, verifiable sustainability reporting they seek. Global accounting standard setters are well-placed to help to start deliver that, given their history of achieving the same for financial information. However, accounting standards are, by definition, designed to report on the financial performance and health of an entity.
    - There are risks about transplanting the concepts of financial reporting into sustainability. Sustainability risks that companies are exposed to derive from negative impacts on people and planet. The lack of disclosures today means links between sustainability issues and enterprise value are contested and subjective. Requiring demonstrated financial materiality means the sustainability information is necessarily backwards looking, whereas the impact of sustainability issues can evolve rapidly over time. Without information about corporate impacts on people and planet we will never address the most pressing challenges we face.
    - We recommend that the UK Government puts in place a system of reporting standards based on double materiality, incorporating both risk and impact.

- **If public policies and funding send mixed signals to financial markets about the consistency and stability of the UK Government's commitment to a net-zero, sustainable economy, financial institutions will be less likely to commit to this path.** The UK Government should reconsider prioritising competitiveness and growth over sustainability in the Financial Markets and Services Bill, and prioritising nuclear, offshore wind, and new oil and gas over onshore wind and home insulation in the British Energy Security Strategy.

10. How can the UK government assess and measure progress toward financing the UK's energy security, climate and environmental objectives?

Responsibility for meeting the Government's objectives across climate, environment and energy security are rightly shared across several departments, including HMT, BEIS and CO, as well as by industry. To track progress against green finance needs, timely and accurate information is needed on both green finance needs and green finance flows. We re-state the recommendation of the Climate Chance Committee Financial Advisory Group to *'establish a regular assessment of investment needs and financial flows for climate action in the UK, including Net Zero, resilience and a just transition'*.[28]

11. How can the UK best facilitate greater private investment into climate change adaptation and resilience activities?

See comments on transition planning in question 1.

[28] https://www.theccc.org.uk/wp-content/uploads/2020/12/Finance-Advisory-Group-Report-The-Road-to-Net-Zero-Finance.pdf

17. How can the UK financial sector support the delivery of the UK's climate and environmental objectives at the local level, whilst also benefitting local growth and communities?

Climate finance reaching the local level as part of a coherent approach to climate action delivers effective, efficient, and sustainable results that enhances the impact of investments made. Local finance can be more efficient and cost effective, building on communities' own resources, and supporting local solutions that tackle challenges with greater local ownership.

This will ensure vulnerable communities and workers, as the most in need for resilient development interventions during the transition, fully benefit from climate adaptation and mitigation investments. However, only a small proportion of climate finance reaches the local level, and an even smaller share is channelled to community organisations or small businesses.

The term 'just transition' refers to a fair and inclusive process that prioritises the social needs of workers, communities, consumers and citizens impacted by the transition to a net-zero economy. We recommend that the UK Government creates a national Just Transition Commission, similar to that established in Scotland. This Commission should be tasked with coordinating regional bodies with devolved powers for identifying local needs for the just transition and channelling finance in a way which addresses these appropriately.

Part of this work should involve reviewing how the UK can take a more joined-up approach to financial regulation by creating a policy environment that will enable the "place-based" investments needed in the real economy. For example, we recommend above that the Department for Work and Pensions implements legislation aimed at clarifying what it means for pension schemes to act in the best interests of their beneficiaries. While investors have a responsibility to act in the best interests of their beneficiaries, we believe this should not be solely defined in terms of pure financial returns. ShareAction's Responsible Investment Bill extends the concept of best interests to encompass the wider benefits to beneficiaries of a stable and sustainable society, economy and environment.

18. How can local authorities support the mobilisation of private and public investment to key sectors and technologies for the UK's climate and environmental objectives, whilst also meeting local priorities? What barriers to this are there?

See answer to question 17.

28. What should the role of the UK government or regulators be to support the greening of the financial system? How could they go further?

As commented above, regulators should have a clear sustainability objective (as opposed to a regulatory principle) embedding net-zero and nature-related goals as a central part of their work**.** This would support them to take prompt and efficient action on managing the risks and impacts associated with the climate crisis in relation to the financial system.

30. What steps can the UK government take to support a robust investment data ecosystem to attract green finance flows?

2021 research found that more than half of businesses in financial services believe 'greenwashing' to mislead customers about ethical practices is "rife" in the industry.[29] We welcome the UK Government's efforts to establish a clear and transparent system of classification and disclosure in the UK financial sector. We recognise that the UK government played a major role in the early development of the EU's sustainable finance frameworks, notably on classifications and disclosures. To maintain its competitive advantage post-Brexit, we believe the UK could identify weaker points in the EU's regulations, strengthening these in its own work.

In particular, the EU's plans for its taxonomy for environmentally sustainable economic activities has met with much controversy by announcing that it would include gas and nuclear as bridge technologies for a net-zero economy. This decision will result in private capital being directed away from the technologies we urgently need to create a net-zero future. Nuclear reactors take too long to build to contribute to climate targets and gas has been found to be the single most polluting fuel in the EU.[30] The UK government should avoid this obvious and dangerous misstep in its own taxonomy work.

31. Are Scope 3 (supply chain) emissions data important for investors to assess and manage climate-related risks and opportunities?

Scope 3 emissions data is critical for investors, since this is usually the greatest share of an organisation's carbon footprint by a significant margin. Many organisations report that 80% of their emissions fall under the auspices of Scope 3 and, for some, Scope 3 accounts for as much as 97% of their overall emissions.[31] As we comment in our 2020 report*, Point of No Returns Part III – Climate Change*,[32] considering the large gaps in scope 3 data availability and in light of the fact that indirect emissions make up the majority of companies GHG emissions in most sectors, it is key that the reporting and reduction of emissions occurring in company value chains remain firmly within investors' engagement focus.

32. Is there a role for the UK government to support businesses (of different types and sizes) to make good quality Scope 3 emissions disclosures (including SMEs in the value chain of disclosing entities)? If so, what should this be?

Many companies struggle with the complexities of producing Scope 3 data. It might be useful for the UK Government to offer guidance in terms of reputable sources for support. Moreover, Scope 3 emissions data is not sufficient by itself as other qualitative measures are needed for investors to get a clear picture of how companies are managing climate-related risks and opportunities. This should be made clear in any guidance issued by the Government.

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[29] https://www.cityam.com/over-half-of-financial-services-professionals-claim-greenwashing-is-rife-in-the-industry-study-says/
[30] https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/220121-sustainable-finance-platform-response-taxonomy-complementary-delegated-act_en.pdf
[31] https://www.edie.net/downloads/edie-Explains--Scope-3-carbon-emissions/492
[32] ShareAction | Point of No Returns Part III – Climate Change

35. How should the UK government assess and measure progress towards the transition of the global financial system and mobilisation of finance for global climate and nature goals?

The government should oversee the degree to which financial institutions are disclosing their climate and biodiversity impacts. To support the disclosure process, all institutions should be required to implement the same disclosure framework, such as TNFD, and disclosure should be mandatory with no exceptions.

The government should also measure progress by sector, as this is especially important for nature goals, by ensuring that financial institutions integrate nature and climate goals and targets into sector-specific strategies and investment screening processes, with goals and targets based on those set forth by the Conference on Biodiversity and the Science-Based Targets Network.

The government must also pursue accountability measures. To hold financial institutions accountable to these goals, and ensure that transition and mobilisation are progressing, the UK government should clearly define short-term, medium-term and long-term goals and should include these time horizons in any and all biodiversity and climate regulation. The government must also measure progress by building oversight capacity to track goal-oriented action by financial institutions and establishing consequences for institutions that fail to take sufficient action.

38. What are the unique challenges for emerging and developing economies in meeting the requirements of the transition to a net zero and nature-positive global financial system, and how can the UK best provide support to overcome these?

Climate Strategies highlights that "there is not a one-size-fits-all approach" and that there is still too limited an understanding of what the just transition means in developing countries. Developing countries tend to have high levels of unemployment, meaning that there needs to be a greater focus on job creation, rather than transformation. Informal workers may make up to 80 per cent of the total workforce in developing countries and are often overlooked in the just transition debate.[33]

Most importantly, each developing country has a different social and economic context and will face different challenges in implementing a just transition. For example, in Colombia, the majority of workers involved in the agriculture, forestry and other land use sectors are informal low-income workers. Conservation strategies could disproportionally affect the economic rights of poor communities. if they are not informed by a nuanced understanding of the local context.[34]

Some emerging and developing economies are also at the forefront of physical climate change, such as extreme heat or flooding. The UK should consider means to help adaptation as much as mitigation. For example, the UK could offer expertise in terms of scenario risk analysis to best understand where business or communities may benefit from relocating to avoid worst of climate impact.

A key issue for developing countries is accessing sufficient capital to make the transition, since financial institutions tend to assess risks in these localities as higher than elsewhere.

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[33] https://climatestrategies.org/wp-content/uploads/2020/06/CS_Just-Transition-NDCs-report_web.pdf
[34] https://climatestrategies.org/wp-content/uploads/2021/05/All-presentations_JustTransitionForAll.pdf

In some cases, state-owned enterprises are heavily invested in high emitting industries which simultaneously support a large workforce. The main route for the UK to support developing countries in their transition should be through public financing of transition activities, via development aid focused on addressing global inequalities. However, a Just Transition Commission (proposed in our answer to question 17) could also work with the Foreign, Commonwealth & Development Office to identify ways of aggregating small community projects in developing countries, creating financing opportunities at the right scale for public and private investments while maintaining high environmental and social standards.

Yours sincerely,

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