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PARLIAMENTARY BRIEFING BUILDING A NET ZERO FINANCIAL SYSTEM PRIORITIES FOR 2022

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COP26 brought finance to the forefront of the global climate conversation, and the UK took a leadership stance by announcing a commitment to create a Net Zero Financial Centre¹ and a Net Zero Financial System² - where both public and private financial flows are aligned with net-zero and climate resilience. The UK remains COP President until COP27 in Egypt in November 2022 and all eyes are on the UK to deliver on the promises it made in Glasgow. Before the end of 2022, the Treasury will publish an updated Green Finance Strategy. This is the opportunity for the Government to set out its plan for fulfilling these commitments. If successful, this will put the UK at the forefront of the race to a prosperous and competitive net zero economy.

Progress towards A Net Zero Financial System

According to the Grantham Institute, achieving a net zero and resilient economy is 'the best way of minimising the risks of climate change to the stability of the financial system and the macro-economy'. Meeting net zero will also unlock markets, create jobs, and productivity across the UK. As a first mover in the race to net zero, the UK can reap immense economic benefits, including 370,000 new

1 For more detail, see E3G, Carbon Tracker and Grantham Institute's joint briefing: **A net zero UK financial centre - E3G**

2 For more detail, see E3G's briefing: <https://www.e3g.org/publications/financing-the-net-zero-transition/>



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jobs and GDP increase of 2%. Slow action risks surrendering competitive advantage to other jurisdictions. Given the size and clout of the UK's financial sector, creating a net zero finance system is the single most positive action the UK can take to tackle climate change³.

The UK Government has already laid positive foundations for a Net Zero Financial System and Centre, including:

- > A commitment to set up a science-based UK green taxonomy to define what is a green investment⁴ to catalyse investment into the UK economy and prevent greenwash;
- > A commitment to introduce mandatory climate-related financial reporting (TCFD) for all large firms, to help all large firms assess climate risk, which is now being rolled out;
- > **A commitment to introduce mandatory disclosure of net-zero transition plans⁵** for large financial institutions and FTSE 100 companies in 2023, to help ensure they set out credible plans to get on the pathway to net-zero and take advantage of the significant economic opportunities;
- > Set up the UK Infrastructure Bank, committed to spend £22 billion on sustainable infrastructure across the UK, with a net-zero and levelling up mission at its heart.
- > Set out its plan for delivering net zero across the real economy with its 2021 Net Zero Strategy.

What is missing to deliver a Net Zero Financial System?

The Treasury is due to set out a Green Finance Strategy in the last half of 2022. This strategy is the vehicle for the Government to set out how it will create a net zero financial system and make the UK a net zero financial centre. E3G is recommending the following four priority actions to ensure it is fit for purpose:

1. Treasury must set out a detailed net zero financial strategy

Despite publishing the net zero strategy, the Government has not yet set out a comprehensive plan for financing the net zero transition. This is the biggest missing piece of the architecture needed for the UK to get on track to net zero. A

³ Recent analysis shows that 25 large UK financial firms are responsible for 1.8 times more CO₂e emissions than the territorial emissions of the UK itself, the UK finance industry would rank as the 9th largest emitter in the world;

⁴ <https://appgsusfin.org/parliamentary-briefing-the-green-taxonomy-and-how-to-tackle-greenwashing/>

⁵ For more information, see [E3G's joint parliamentary briefing on Mandatory Transition Plans](#)



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detailed net zero financial plan is critical to provide business and investors with the policy, public investment, and fiscal certainty they need to direct investment to net zero. This strategy must not only focus on private finance policies. It must also include:

- > A national and sectoral assessment of the total investment needed to achieve net-zero in the UK
- > Mapping of existing public and private financial flows to identify investment gaps
- > A sectoral breakdown of the minimum public investment needed to get on track
- > Alignment of regulation and tax policies with net-zero to leverage in private investment.

2. Maximise the impact of UK Infrastructure Bank

The UK Infrastructure Bank was launched in 2021 with a dual mandate of addressing climate change and levelling up across the UK and will be set up in legislation in 2022. To ensure it maximises the economic opportunities of the transition to net-zero, it must do the following:

- > Put the net-zero and levelling up mandate in the Bank's legislation, and include a strong 'Do No Significant Harm' screen to ensure all investments are sustainable
- > Provide local authorities and investors with technical assistance and project development services to build capabilities and open new sustainable markets.
- > Prioritise action to de-carbonise the built environment⁶
- > Invest to de-carbonise the UK's industry and transport system and protect natural capital.

3. Prevent greenwash by creating a science-based UK Green Taxonomy that is applied across public and private finance.

The UK's green taxonomy must be science based if it is to be credible. This means that it must not include fossil gas or biomass power. This is critical as investors require clear definitions on what investments are classified as sustainable if they are to transform their investment portfolios to net zero. The taxonomy must be integrated across both public and private finance decision

⁶ <https://www.e3g.org/publications/making-markets-through-the-uk-infrastructure-bank/>



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making to ensure the market receives strong, consistent signals.

4. Extend mandatory net-zero transition plan disclosure requirements to all large companies and financial institutions in the UK and provide science-based net zero guidance on what good looks like.

The Chancellor's announcement at COP26 of the requirement for all UK listed companies and financial institutions to disclose net zero transition plans should be extended to all large companies across the UK. This should be accompanied by science-based guidance on what a good transition plan looks like. Regulators should have enhanced enforcement capacity commensurate with these new requirements to prevent greenwash.

Future UK Green Finance Milestones

Below is the timetable of key and upcoming finance events parliamentarians should expect to scrutinise.

| | |
|----------------|--|
| 2022 | <ul style="list-style-type: none">• TCFD-aligned reporting required for 'certain companies' |
| Q1 2022 | <ul style="list-style-type: none">• Consultation on initial criteria in the UK Green Taxonomy |
| Q2 2022 | <ul style="list-style-type: none">• Consultation on proposed SDR policies |
| Q3 2022 | <ul style="list-style-type: none">• Government to publish updated Green Finance Strategy• Strategic Plan published for the UK Infrastructure Bank |
| Q4 2022 | <ul style="list-style-type: none">• Transition Plan Taskforce reports on 'gold standard' guidance for transition plans• Introduction of supporting legislation for SDRs by the end of 2022• Legislation to require for Net-Zero Transition Plans for listed companies• UKIB legislation |
| Q1 2023 | <ul style="list-style-type: none">• Consultation on remaining criteria for the UK Green Taxonomy ahead of introduction of new legislation |
| 2023/24 | <ul style="list-style-type: none">• Mandatory SDRs in line with UK Green Taxonomy and ISSB, subject to consultation• Mandatory Net-Zero Transition Plan disclosure begins to roll out |
| 2025 | <ul style="list-style-type: none">• TCFD-aligned reporting fully mandatory by 2025 |



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Green Finance Glossary

Net Zero Financial System and Net Zero Finance Centre: Achieving a net zero UK financial **system** announced in the Net Zero Strategy will require a plan that integrates the public policy and regulatory tools in the government's toolkit with private market signals and regulations which inform the decisions of private finance actors. A critical part of this must be the creation of a net zero financial **centre** (private sector financial reform).

Task Force on Climate-Related Financial Disclosures (TCFD): In 2017 the TCFD published recommendations for how companies should report climate governance, strategy, risk management, and metrics and targets. The UK made reporting under TCFD mandatory in 2020, with an expectation this would begin to be rolled out for all large companies from 2023.

Mandatory Transition Plans: Requirements for UK financial institutions to publish firm-level plans setting out how they will transition towards a net-zero economy. The plans should include interim and high-level targets as well as how organisations plan to achieve these targets in practice.

Sustainability Disclosure Requirements (SDRs): A new, economy-wide framework and metrics to ensure investors have clearer, more consistent information on companies' environmental impacts. Corporates, asset managers and owners, and investment products will be required to disclose their impacts and how they are taking sustainability into account. The Government plans to implement the framework through legislation.

Green Taxonomy: The green taxonomy is a new UK framework that will define which investments are classified as environmentally sustainable. It will make it easier for investors and consumers to understand the environmental impacts of their investments. The development of the UK taxonomy is being supported by the Green Technical Advisory Group (GTAG). Guidance should include defining expectations around timelines, sectoral decarbonisation pathways, and methodologies.

Glasgow Financial Alliance for Net Zero (GFANZ): A coalition of over 450 global financial firms working to accelerate the transition to net zero by 2050, by aligning investment and lending with net-zero emissions targets and requiring members to set interim and long-term goals for meeting these targets. During COP26, Mark Carney announced that over \$130 trillion (40% of global assets under



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management) of private investment is now covered by a net zero commitment under GFANZ.

International Sustainability Standards Board (ISSB): Launched in November 2021, the ISSB aims to deliver a global baseline for sustainability-related disclosure standards.

About E3G

E3G is an independent European climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G has worked closely with Government to support the transformation of UK's financial system to net zero. This has included supporting the development of the UK Infrastructure Bank, being appointed as the co-secretariat of the Transition Plans Taskforce, sitting on the Treasury's Green Technical Advisory Group to advise the development of the Green Taxonomy, and supporting the Government in developing its vision for a UK Net Zero Financial System.

E3G is keen to support MPs and Peers in efforts to improve legislation. If briefings on specific finance topics or discussions about global or business best practice would be helpful, please get in touch with Heather McKay at heather.mckay@e3g.org, or Eduardo Lope at eduardo.lopez@e3g.org

More information is available at www.e3g.org

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