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Carbon Tracker Initiative

LSE Grantham Research Institute on Climate Change and the Environment

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A NET ZERO UK FINANCIAL CENTRE
DESIGNING A GREEN GLOBAL FINANCE HUB

The UK Government announced in the Green Finance Roadmap its intention to create a world-leading net zero financial system[1]. However, an important part of delivering this sustainable system lies in how the government supports private finance in going green. London is one of the world's leading financial centres, but in order to maintain this position, it will need to innovate and reflect a changing world. With the UK hosting COP26, there is a very real opportunity to build on its prior successes and assure London's future role as a global and prosperous centre of green finance.

Summary
This briefing makes the case for a net zero UK financial centre and outlines key opportunities for HM Government to lead the world on green finance. We provide recommendations, together with a suggested timeline, for supporting the net zero transition of key sub-sectors within the UK finance sector. We then identify the key financial policies, domestic and international, required to support the net zero transition - including mandatory TCFD and transition plans for UK finance, and alignment with the green taxonomy.

In light of COP26, the government must kickstart action on net zero finance across different financial sub-sectors. Some will transition before others, and the government need not wait for every technical detail to be agreed to send the initial policy signal. An announcement at COP26 of the creation of a net zero financial centre could be accompanied by the establishment of a Technical Taskforce or committee, which could be asked to set out in more detail the pathways to net zero for each sub-sector.

Sub-Sector	Suggested Timeframe to Net Zero
Service Providers and Advisors	~2025
Insurance Sector	~2030
Banking and Lending	~2030
Asset Owners and Asset Managers	2050
Stock Exchanges	~2050
Derivative Markets	2050

[1] https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing

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Why a UK net zero financial centre?

Achieving global climate goals will require a rapid reorientation of capital flows from unsustainable to sustainable economic activities. The IEA' Net Zero by 2050' report quantified the shift that must be achieved in financial flows to deliver the 1.5C goal of the Paris Agreement. In relation to energy, under a financial centre aligned with net zero there should be no new investment in new fossil fuel supply. Current flows of finance should be directed to clean energy, reducing costs for the lowest income households[2]. Global clean energy investment must triple to $4 trillion per year by 2030, maintained at that level through to 2050. However, global investment flows to fossil fuels remain inconsistent with global climate goals[3].

A net zero financial centre delivering finance at scale will be necessary to support the wider systemic change required to support decarbonisation. Under the UK G7 Presidency, G7 Finance Ministers and Central Bank Governors[4] discussed the roles of both private firms and public actors in delivering net zero financial systems. A recent letter from leading UK financial institutions, responsible for over $5 trillion in assets, also called on the Prime Minister to develop a world-leading net zero financial system.

However, private finance will be critical to financing the transition because the scale of investment required is significant and impossible for public finance alone to provide[5]. The financial centre is now recognising the direction of travel for net zero policy and the clear business opportunities[6] associated with the transition. The Glasgow Financial Alliance for Net Zero (GFANZ) launched this year to bring together leading financial net zero initiatives[7] .

The UK is particularly well placed to lead the global trend for financial sector commitments to net zero[8], given that it has deep and liquid capital markets with global reach and benefits from the soft power advantage of leading in regulatory practice worldwide[9]. However, the UK faces a significant challenge: the British financial sector is one

[2] **Net Zero by 2050: A Roadmap for the Global Energy Sector, IEA (2021)**

[3] Since the Paris Agreement was adopted in December 2015, over £2.7 trillion of new investment (or **$3.8 trillion USD**) has been directed towards fossil fuels by Banks

[4] This meeting included discussion of G7 countries' **"role in driving forward the transition of their economies and financial systems to net zero"**.

[5] The Climate Change Committee recommended that additional investment the UK for the net zero transition would need to scale up from £10bn per year in 2020, to £50bn per year by 2030 and continuing at that level through to 2050. **Figure 5.1, Advice Report 5 and 6, Sixth Carbon Budget**

[6] **76% of financial services firms are interested in offering sustainable finance products and services, with a potential financial impact of up to US$2.9 trillion**

[7] GFANZ has joined the UN-convened Net Zero Asset Owner Alliance, the Net Zero Asset Manager Initiative, and the Paris Aligned Investment Initiative under one grouping.

[8] A **recent global survey** of over 500 pension funds and over 500 insurers indicated that 94% of insurers and 90% of pension funds either had committed to net zero or were planning to do so.

[9] **https://www.e3g.org/publications/kaleidoscope-of-global-green-finance-is-being-shaken-can-the-uk-regain-lead/**

of the world's largest emitters,[10] aligned with 4°C of global warming[11]. Indeed, while the UK lacks a clear strategy for financing the transition[12], confusion will remain for private finance across many areas due to a lack of policy coherence or optimisation of the mobilisation of finance towards net zero. As such, action will be slow and insufficient to meet the Government's carbon budgets[13].

Achieving a net zero UK financial system will require a plan that integrates the policy and regulatory tools in the government's toolkit with market signals and regulations that will inform the decisions of finance sector actors[14]. A critical part of this must be the creation of a net zero financial centre.

Opportunities of a net zero financial centre

Through creating a net zero financial centre, the UK can:

- Cement the UK's position as a global hub of green finance, meaning that the UK can continue to attract business and investment to an open and well-regulated financial market.
- Make the UK's net zero stock market the listings venue of choice for the international firms that will be the leaders of the future economy.
- Increase the economic resilience of the UK by increasing diversification and risk resilience within investment portfolios.
- Support levelling up and a just transition through mobilising financial flows towards the UK's environmental and social resilience.
- Support long-term UK economic stability. According to the Advisory Group on Finance to the Climate Change Committee, a net zero financial centre is 'the best way of minimising the risks of climate change to the stability of the financial system and the macro-economy[15]'.

The UK will also be able to realise the considerable financial, economic, and social co-benefits of a swift strategic UK shift in capital towards net zero aligned investments, including:

- Supporting new and emerging sustainable sectors and industries.

[10] **Recent analysis** shows that 25 large financial firms are responsible for 1.8 times more CO2e emissions than the territorial emissions of the UK itself

[11] **In 2019, Mark Carney stated that the UK's financial sector was aligned with 4°C or more of global heating**

[12] For more information on a net zero finance system, see **Financing the net zero transition - E3G**

[13] According to the CCC's 6th Carbon budget, which the UK Government has now enshrined into law, including cutting domestic emissions 78% by 2035.

[14] **Financing the net zero transition - E3G**

[15] **Central banks must play clear role in reaching goal of net zero greenhouse gas emissions to tackle climate change, Grantham Research Institute on Climate Change, and the Environment (2021)**

> Lowering energy costs for households by making buildings more efficient and building a modern energy system.

> Funding future-fit UK infrastructure.

> The creation of good quality green jobs[16,17].

> Reducing the risk of sinking public and private capital into stranded assets.

> Environmental co-benefits from sustainable supply chains.

> Natural capital and biodiversity protection and restoration, and the associated economic benefits including risk reduction from climate adaptation[18].

Risks of Inaction and Greenwash

Without policy intervention, the UK's financial sector will not transition at scale fast enough to meet the UK's net zero and resilience targets. Failure to do so may materialise the following risks, which could have an impact at the national and international level:

> The UK Presidency of COP26 has made finance a core theme and included it in the PM's 10 Point Plan[19]. Failure to take practical steps towards a net zero financial centre could pose reputational risks for the UK in the short term, and in the medium term will make it impossible to meet the net zero goal[20,21].

> If it does not maintain leadership, the UK may lose its first mover advantage on creating a net zero finance hub, losing out to other countries on future listings and business interest as global finance transitions to net zero.

> There will be a significant cost to the UK economy from climate change, particularly for low-income households if action is not taken to design policy which protects low-income households from disproportionate costs[22].

> Without appropriate guidance, confusion in the finance sector regarding standards, methodologies, and timelines will hinder private finance actors in developing credible net zero transition plans. This inefficiency will slow down the reallocation of capital and investment by private finance required to meet the UK's climate goals. This may lock institutions into certain investment pathways

16 **Onward research: Greening the Giants, Onward (2021)**
17 **The UK's Green Industrial Revolution is coming your way, UK100 (2021)**
18 **https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review**
19 **PM outlines his Ten Point Plan for a Green Industrial Revolution for 250,000 jobs, UK Government (2020)**
20 One estimate of the FTSE 100's carbon footprint suggested that their total carbon footprint could be up to **15 times** the domestic carbon footprint of the UK.
21 **SBTi's G7 Stock indexes analysis showed that the FTSE100 was aligned with 3.1 Degrees of warming**, equal last place in a ranking of the G7 countries.
22 **https://www.cse.org.uk/projects/view/1237**

which are actively harmful to net zero – and wider macroeconomic stability; reducing the first mover advantage the UK could have on green finance.

> Risk of inaction and greenwash[23] are significant if government does not provide clear guidelines to business and finance about what activities are compatible with the UK's targets on net zero and resilience. Greenwash at scale will lead to reputational damage for the UK market, discourage further business and investment, and harm the UK's climate, environmental, and social objectives.

> Stranded assets and asset bubbles could materialise if the UK's transition to net zero is not properly managed[24]. This will be a particular risk if the financial sector is not supported in transitioning hand in hand alongside the real economy.

> Negative consequences for biodiversity and nature. The interrelation between mitigation and resilience targets must be recognised and environmental protection ingrained into guidance.

Recommendations for transitioning to a net zero financial centre

Greening the economy will 'not be a single leap, but instead a process with a degree of trial and error. Moreover, without the engagement of all stakeholders, devising a path to a low carbon future would be haphazard, or at worst impossible[25].' Creating a net zero financial centre will require a holistic approach to transitioning, as there are significant co-dependencies between sub-sectors, and certain sectors will transition earlier than others. For example, attaining net zero in listed equity must necessarily be preceded by attaining net zero in new infrastructure lending.

Therefore, the government should set an overall ambition for a net zero financial centre by 2050 and work with different subsectors to support them in reaching net zero in a staged approach, ratcheting up ambition over time. The methods and flexibility of delivery remain in the hands of the government, but to meet these goals, each sub-sector must be required to act now. Developing transition pathways, timelines and interim targets is a core next step.

To support this process, a technical committee or taskforce could be announced at COP26. This committee would then set out key recommendations for moving to a UK net zero financial centre and build out the technical expertise necessary to transition London's financial sector to net zero. More details could be announced in the green finance strategy review in 2022.

[23] **https://www.forbes.com/sites/beauriver/2021/04/29/the-increasing-dangers-of-corporate-greenwashing-in-the-era-of-sustainability/?sh=778da0e24a32**

[24] Updating capital rules to reflect climate risk may be a way to approach managing this. However, the Bank of England's stress test may reveal many shortcomings in the current approach, but the governor has said they will not address those risks via capital rule changes.

[25] **https://www.e3g.org/publications/cracking-the-green-finance-puzzle/**

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Timeline for transitioning to net zero

The table below outlines considerations for transitioning the sub-sectors within the UK finance sector to net zero. It also suggests a timeline for action given the relative progress and capacity for each sub-sector to decarbonise.

Sub-Sector	Suggested Timeframe to Net Zero
Service Providers and Advisors	**~2025**
> **Strong UK policy signals on embracing the transition to a net zero financial centre would encourage UK advisors and service providers to build capacity in the UK ahead of competing financial centres, as a global centre for net zero services in consulting, accounting, auditing, and investment advisory.** As an early mover, the UK can position itself at the centre of the large global expansion in services from private sector transitions to net zero. Important growth areas include Paris-aligned auditing and advisory support for net zero transition plans. For example PwC is hiring 100,000 staff worldwide to focus on the growing ESG field, including topics such as net zero[26]. > **The UK should send a strong signal about its commitment to these future job creating industries through investing in green skills development, training, and education – including support for apprenticeships and universities.** The UK should encourage businesses and professionals to join initiatives such as the Professional Bodies Charter for Climate Action[27] and the Race to Zero which encourage real economy sectors to align with net zero. > **The UK should mandate net zero targets and transition plans, together with regulatory guidance on what good looks like for transition plans[28], to enable these industries to flourish.**	
Insurance Sector	**~2030**
> Given the insurance sector's role as risk managers, insurers, and investors, it will play a critical role in supporting the transition to a net zero economy. There is appetite for change from the sector as illustrated by the newly established Net Zero Insurance Alliance[29]. > **Over the short term, insurers should reprice risk to reflect climate considerations and engage in a managed roll back of underwriting from fossil fuel projects**. A phase-out should apply to companies incompatible with the IEA's net zero scenario and the Paris Agreement, or those that will be unable to transition to net zero/face significant transition risks meaningfully. For industries that remain resource intensive, e.g. construction or manufacturing, stewardship should be employed to support their transition. **Over the medium-term, the full universe of real economy activities underwritten should transition to net zero.**	

[26] https://www.reuters.com/business/sustainable-business/pwc-planning-hire-100000-over-five-years-major-esg-push-2021-06-15/

[27] https://www.e3g.org/news/uk-world-leading-professional-institutions-launch-charter-for-climate-action/

[28] An example of a useful resource is the upcoming publication from the Climate Safe Lending Network and UNEP FI. 'The Good Transition Plan' will be a practical guide for banks that includes emerging features, best practices, and resources for developing good transition plans.

[29] https://www.unepfi.org/net-zero-insurance/

- The insurance industry should build in nature and biodiversity resilience risks to their assessment models. They should also explore rolling out dynamic materiality within disclosure requirements.
- **HMT should update stewardship guidance to align with IEA recommendations and support regulators in designing/implementing world leading frameworks and standards to support net zero transition.** This should include a requirement for mandatory TCFD and transition plans, as well as guidance on biodiversity and deforestation risks.

Banking and Lending	~2030

- The UK banking and lending sector is arguably one of the most immediate finance sub-sectors to transition to net zero finance emissions. Given the close relationship with emissions from lending to infrastructure and projects in the real economy, the UK banking and lending sector emissions sit upstream of emissions from the real economy.
- This is particularly true regarding bank lending to carbon-intensive projects in the fossil fuel industry. Infrastructure receiving loans today may have a lifetime beyond 2040 or 2050, so **the UK banking and lending sector must attain net zero in its financed emissions as soon as possible and align with the IEA's recommendations of no new investment in fossil fuels to meet 1.5.** Without this action, it will be infeasible for either investors or real economy companies they own to transition to net zero. **Updated stewardship guidelines will support the Bank's transition of fossil intensive assets, together with a managed phase out from net zero non-compliant assets over time.**
- However, the emissions profile of lending should be easier to reorient in the short-term than that of equity holdings. The UK government could more credibly aim to bring banking and lending to net zero financed emissions well before mid-century, e.g. by 2030. **One potentially significant change would be HMT incorporating scope-3 emission profiles within the net zero guidelines for banks[30].** Given the weight of the UK banking sector, the UK should use its position and influence at platforms like BCBS and NGFS to update global banking guidelines to include TCFD and scope 3 emissions.
- **HMG should improve the competitiveness of the UK banking sector by supporting the UK's thriving Fin Tech industry and non-bank lending sector to compete with the big banks.** This would improve lending to SMEs and socially beneficial or green industries – helping to achieve both net zero and levelling up.
- **HMG should also support models of finance which adopt a patient capital approach to their investments,** such as regional mutual banks, which are a major feature of SME finance provision in all other G7 nations, and Community Development Finance Institutions (CDFIs)[31]. **The UK infrastructure Bank should play a critical role in conjunction with the British Business Bank and other public funding bodies.**

Asset Owners and Asset Managers	2050

[30] **The full portfolio emissions of financial firms are estimated to be over 700 times greater than their direct emissions**
[31] UK's thriving FinTech and non-bank lending sector to compete with the big banks

> The current wave of commitments to net zero by some of the world's largest investors (asset owners/managers) suggests an appetite for a net zero UK asset ownership and management industry. Asset owners/managers are also increasingly explicit about the support government must offer in terms of policy concerning the transition of the real economy, fiscal and economic planning, and financial regulation of its firms.

> Asset owners/managers can only reach net zero when net zero is reached in the real economy, as their financed emissions reflect their portfolios. In general, the UK asset ownership/management industry will be stronger for attaining net zero early, insofar as it enables taking earlier positions in the net zero winners of tomorrow's economy. However, as UK firms own and manage securities from real economy companies domestically and worldwide, attaining net zero portfolios will not be easy, and likely not fully possible before mid-century. However, this should not prevent early action, with institutions like GFANZ to provide guidance and ratcheted ambition for these actors.

> **The UK should promote the transition of the real economy and roll out TCFD credibly to all large UK companies, together with a requirement to disclose transition plans[32]. HMG should announce a Net Zero Financing Strategy by COP26 to support the real economy transition to net zero.** This could be expanded in the 2022 review of the Green Finance Strategy.

> **HMG should work with regulators to support the development of guidance around transition plans, active ownership, and shareholder stewardship of portfolio companies. This is an area of expertise where the UK can establish leadership.**

> **The Green Taxonomy should be used to manage perverse incentives for asset owners/managers** to divest stocks which do not match their desired emissions profile, and which reduce portfolio emissions but not global emissions.

Stock Exchanges	~2050

> **Stock exchanges play a catalytic role in supporting the net zero transition, with significant influence on the rest of the finance and corporate sector.** They are highly regulated and have a high level of accountability and transparency. They also foster resiliency by preparing their markets for the growing demand for climate-related information in a systematic and globally consistent manner, which investors and the finance sector increasingly demand[33]. **Early action by stock exchanges to set net zero targets and transition is critical**. However, exchanges can only reach net zero when the companies they list have reached net zero.

> However, concerns remain around whether the move toward a net zero financial centre could hamper the UK's aspirations to strengthen its position as a sought-after destination for listings. However, it is important to note that **quality regulation, including listing requirements, can be a source of competitive advantage as companies seek reputational advantage by listing in the UK as a jurisdiction with robust climate policies.** Moreover, any requirements on stock exchanges could ratchet up over time to provide listings and companies with a clear pathway and timeline to transition to net zero.

> **Stock exchanges should positively support the transition and investor demands by promoting consistent and comparable reporting practices.** They should act as standard setters for best

[32] https://www.e3g.org/publications/parliamentary-briefing-on-uk-net-zero-finance-and-the-need-for-mandatory-transition-plans/

[33] The United Nations Sustainable Stock Exchanges (SSE) initiative recently launched guidance to stock markets on becoming more sustainable, producing **the following reports: A new action plan on How Stock Exchanges can Make Markets Climate Resilient; and Model Guidance on Climate Disclosure: A template for stock exchanges to guide issuers on TCFD implementation.**

practice and guidance on stewardship/ disclosure/ listing requirements[34]. In this manner stock exchanges also help ensure climate resiliency of their capital market system to ensure stability, transparency, and long-term growth[35].

- **Stock exchanges should provide clarity on ESG products for investors through standardisation and definitions.** This guidance should align with the green taxonomy as soon as is possible. They should also actively promote the update of green products and services through product offerings and partnerships, visibility, and standardising terminology. **Education, standards, and benchmarking can support this, as can growing green and ESG dialogue.**

- **Listings should enforce robust disclosure/audit requirements rules which create new barriers to succeeding at the listing. Other requirements for successful listings should include ESG strategies, Paris Aligned Audits and Accounts, and disclosing deforestation risk through frameworks such as TNFD[36].** The FCA is reviewing listing rules[37] in line with these recommendations.

- **The UK should ensure widespread implementation of TCFD and transition plan disclosure, and that the FCA's enforcement capabilities are strengthened.** The UK should work to harmonise requirements internationally. Disclosure of climate risk is insufficient by itself to meet the challenges of the transition. **The UK should consider supporting net zero indices targets to encourage further action by stock exchanges[38].** This could provide more flexibility to stock exchanges in aligning with net zero.

Derivative Markets	2050

- Financial derivatives form one of the largest markets globally[39]. They perform a critical role in economic activity by enabling and helping businesses and investors better manage the risks to which they are exposed and align their exposures more effectively with risk tolerance and risk management requirements[40]. Derivatives also enhance transparency by providing forward information on the underlying commodities, securities, or assets[41].

- Derivatives can be used to support the transition because they:
    - can enable the UK to raise and channel the necessary capital towards sustainable investments.
    - help firms hedge risks related to ESG factors.
    - facilitate transparency, price discovery and market efficiency; and
    - contribute to long-termism[42].

[34] For example, AIM Rule 16 on Oil, Gas & Mining changed market behaviour fundamentally, despite the guidelines having no basis in law. Similar examples include UNCTAD SSE guidelines which are sector-based e.g. O&G and coal.
[35] More guidance for stock exchanges can be found **here**
[36] For more information, see: **Task Force for Nature Related Financial Disclosure**
[37] The FCA is working on review of listing rules for commercial companies with a premium listing in the UK, stating that **"Companies will be required to include a statement in their annual report which sets out whether they have made disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and to explain if they have not done so."**
[38] As a short-term measure, as some UK-listed firms go net-negative faster than others in emissions, this could arguably balance out firms with positive emissions, to facilitate net zero for indices overall. This should ratchet up over time to require all companies listed on the index to be net zero.
[39] With approximately €668 trillion in notional amount outstanding as of June 2019, the global derivatives market is more than four times larger than the global equity and bonds markets combined.
[40] **https://www.isda.org/2017/05/10/how-do-derivatives-benefit-the-global-economy/**
[41] By enabling the exchange of risks, derivatives offer an effective tool to hedge climate risks (either direct physical risks or related to required financial transition) by reducing the uncertainty on future price – shielding a portfolio from climate or environmental risk and transforming erratic cash flows into predictable sources of return.
[42] For more information, see: **Derivatives in Sustainable Finance: Enabling the Green Transition**

> Interest in sustainability linked derivatives is growing[43]. The first ESG-linked sustainability-improvement derivative (SID) was launched in August 2019[44], and asset managers and other institutional investors investing directly in taxonomy-compliant companies may also want to use derivatives to hedge their investment against the (to-be-created) ESG taxonomy index (indices) or reduce transaction costs.

> **Fundamentally, UK traders should be free to trade what they want to. However, better disclosure rules and guidance from stock exchanges and finance firms should influence pricing, reflecting current risks. Moreover, the UK should support financial product innovation to attract this growing market.**

Policy Recommendations

The policies below will support the transition of the financial subsector, and in turn the UK delivering a credible net zero financial centre.

Greening Private Finance

> **TCFD and Transition Plans:** HMG should integrate TCFD fully across the economy and should include a commitment to mandate the disclosure of net zero targets and transition plans by COP26. This requirement should be supported by regulators providing supplementary guidance on what good disclosure/a good transition plan looks like e.g. setting out expectations around timelines, sectoral decarbonisation pathways, and methodologies. Moreover, extending the management of climate risk to reflect the latest thinking on dynamic materiality[45].

> **Paris Aligned Audits and Accounts**: HMG should mandate Paris Aligned Audits and Accounts for all large companies to support the disclosure and implementation of climate risk[46]. Where directors choose not to use Paris-aligned assumptions in drawing up their accounts, they should be required to publish sensitivity analysis for a net zero pathway in the Notes to the Financial Statements.

> **UK Green Taxonomy:** The new UK Green Taxonomy should be used to clarify which investments are compatible with the UK's net zero and resilience target and certainty to the market. This consistency will facilitate the crowding in of private finance to future-fit investments. This tool should be integrated across the economy. The UK could also seize the opportunity for leadership by including a polluting taxonomy alongside a green taxonomy[47]

[43] https://www.ocbc.com/group/media/release/2021/ocbc-closes-sustainability-linked-swap
[44] This is a financial instrument that hedges the risk (e.g. against moves in interest rate or currency) of a sustainable investment. The price is linked to the company's trading risk, profit, and capital requirements, and ESG performance.
[45] Dynamic Materiality is defined as the evaluation by an organization of both the inward facing risk it faces from external events such as climate change, but also of the risk that organisation's activities pose to those external events.
[46] Investor groups representing $103 Trillion in AUM call on companies to reflect climate-related risks in financial reporting, UN Principles for Responsible Investment (2020).
[47] The EU Platform on Taxonomies has launched a consultation paper on extending the green taxonomy to include polluting activities

> **Alignment with 1.5** degrees across investment guidelines including regulation to prevent insurance and investment in new fossil fuel supply, ending insurance in coal, only allowing listings on stock exchanges if credible transition plans are in place.

Domestic Policy Coherence

> **Net Zero Finance Strategy**: HMG should ensure policy coherence when delivering a net zero financial centre and system. Coherence and clarity are required support private finance in investing green for the long term. This should be tied together under a national financing strategy for the transition - landing in BEIS' net zero strategy before COP26 and solidified in the 2022 review of the Green Finance Strategy. This could include an updated evaluation of the costs and co-benefits of the transition alongside a map of the UK's financial system and the various sub-sectors in transition.

> **Public and Private finance should align with the UK green taxonomy as soon as is practical.** The UK should harmonise the National Infrastructure Bank's Investment Framework and the new Green Sovereign Bond and Green Retail Savings products frameworks with the taxonomy. This is necessary to send clear signals to the market as to what is green, and what is not. The CCC has also supported a Net Zero Test to ensure public spending and budgets are aligned with the UKs targets on climate[48].

International Alignment

> **Managing extra-territorial spill overs:** UK rules should apply to all operations of firms listed or headquartered in the UK, no matter where those operations are based. To the extent possible, they should apply to UK-based subsidiaries of firms headquartered in other countries. HMT should complement the approaches outlined in this briefing with an international engagement strategy to champion and promote the idea of net zero financial centres, seeking to win allies at G7 and G20 and to take a leading role in building international norms. Language coming out of the G7 this year has already started to set the scene for this. By applying net zero expectations to the UK financial centre, the UK can influence financial flows worldwide. Setting out a clear forward timeframe for this transformation can manage the expectations of international firms that might want to list in the UK (see stock exchange section) and create a race to the top.

> **International guidance and rules:** The Government should consider its influence on the international level on banking rules e.g. BCBS, NGFS e.g. encouraging cooperation to avoid arbitrage, and utilising similar anti-avoidance strategies as with tax havens to prevent leakage. The Government should also consider how platforms like IOSCO and IFRS can support convergence on ESG/Net

[48] https://www.theccc.org.uk/uk-action-on-climate-change/reaching-net-zero-in-the-uk/

Zero stock exchange listing standards and rules. The UK should support international harmonisation on taxonomies and roll out of TCFD globally.

> **UK green taxonomy:** The UK must work with other jurisdictions to establish international science-based norms on defining green. This should leverage opportunities such as the UK's membership of the International Platform on Sustainable Finance (IPSF), and their influence on developing global taxonomy standards. The UK Green Taxonomy should harmonise with the EU Taxonomy to ensure that market actors send equivalent signals for investment domestically and internationally.

Conclusion

Creating a net zero financial centre will be critical to meeting the UK's investment needs for the climate transition and maximising its economic benefits. The financial sector is already showing strong interest in alignment with net zero, but they require guidance, support, and certainty on the direction of travel for policy. The UK needs a plan to achieve a net zero finance system and creating a net zero financial centre will be an important part of this. It will be important to harmonise action by participants across the finance industry while also supporting the transformation of the real economy.

This briefing has outlined the scope and parameters of a net zero financial centre in the UK. It has also clarified that there are significant opportunities to implement this and the risks of failing to act. This briefing also highlighted some considerations different sub-sectors to meet net zero goals and offers several recommendations.

The UK should be the hub of global green finance. The fact that further technical work will be needed to develop detailed plans should not impede the UK Government announcing at COP26 their intention to create a net zero financial centre. This would be a clear signal to the world that the UK means business when it comes to leadership on net zero finance.

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