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UK NET ZERO-ALIGNED FINANCIAL CENTRE
INDICATORS FOR SUCCESS

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E3G

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CONTENTS

SUMMARY

The UK is competing in a global race to lead on net zero and has a huge opportunity to benefit from demonstrating its leadership. To be as effective as possible, the UK's Net Zero-Aligned Financial Centre should be carefully shaped by government from the start. This report sets out proposals for goals, themes, objectives and indicators which will guide the Net Zero-Aligned Financial Centre to success.

Creating an effective Net Zero-Aligned Financial Centre could amplify government action to accelerate net zero transition in the UK, and to leverage this momentum to increase international competitiveness. The UK government should set clear objectives and design a monitoring and management process to ensure success.

Delivering the Net Zero-Aligned Financial Centre is critical because financial firms are not passive recipients of change in the real economy, but can also drive change. Therefore, transforming the UK's financial centre will have a transformational impact on the transition of the whole UK economy, and significant influence on the global net zero transition.

Maximising the impact of the Net Zero-Aligned Financial Centre will involve leveraging the transmission channels by which the financial sector drives change. These include:

> Managing and distributing climate and other environment-related financial risks across the economy.

> Scaling up and mainstreaming market investment into green and transition activities.

> Being innovators and early adopters of new practices and norms such as net zero transition plans.

The financial sector will only drive change if broader government policy to support the UK's transition is consistent, coherent and credible. UK transition will also be accelerated by supervision and regulation that fully addresses and

supports the sector's role in the transition, and easy access to consistent and decision-relevant data for institutions.

Consultation with private sector stakeholders has highlighted four core themes which could shape the UK assessment of financial sector transition to net zero:

1. Assessing the financial sector's role in driving transition (or in holding it back).
2. Assessing the decarbonisation of finance.
3. Ensuring high standards of transparency and integrity, including consistent approaches to recognising climate impacts and risk, and developing appropriate solutions for clients.
4. Supporting the embedding of deeper sustainability practices.

In order to measure success, objectives and indicative data points for the transition to a Net Zero-Aligned Financial Centre could be developed in line with these themes and enabling conditions, with reference to the original goals of the 2019 Green Finance Strategy. Figure 1 provides an overview of proposed goals, themes and objectives that the government could elaborate on in the 2023 Green Finance Strategy.

Indicators can then be designed by drawing on existing data frameworks to help assess the progress against these objectives. Indicators could relate both to private sector actions and investments, and to the status of the enabling conditions required for financial sector action. More detail, alongside suggested indicators and a timeframe for adoption, can be found in the annex to this report.

The objectives and indicators used to track progress of the Net Zero-Aligned Financial Centre will need to be assessed regularly over time. We would expect there to be an iterative process of selecting indicators best able to reflect the progress against each objective, and feasible to collect and assess from available market data.

Monitoring should also include assessing progress of the enabling conditions for the financial sector transition, and should take into account the interrelationship between new tracking of financial sector transition benchmarks, and the planned tracking of green financial flows which the government committed to carry out in the Net Zero Strategy.

The UK's financial sector is one of its most important assets. It has the ability not only to transform the UK economy for green, resilient and energy secure outcomes, but also to make the UK a leader in financing the global transition. Building a Net Zero-Aligned Financial Centre is therefore the "opportunity of the century"[1] for the UK. By clearly capturing this potential in the design and monitoring framework of the Net Zero-Aligned Financial Centre, the UK can set itself up for success.

Proposed goals and core themes for the 2023 Green Finance Strategy

OVERARCHING GOALS (as in the 2019 Green Finance Strategy)

- To align private sector financial flows with clean, environmentally sustainable and resilient growth, supported by government action.
- To strengthen the competitiveness of the UK financial sector.

CORE THEMES

- **Financial sector role in driving transition**
  Mobilising sufficient capital for a successful transition.
- **Assessing the decarbonisation of finance**
  Reducing financed emissions and real economy impact.
- **Ensuring high standards of transparency and integrity**
  Proactive engagement with policymakers and regulators to develop policies and regulations which will enable the development of a Net Zero-Aligned Financial Centre.
- **Embedding deeper sustainability practices**
  Integrating Just Transition, Nature, Adaptation and Resilience into Net Zero strategies.

Figure 1: Based on stakeholder consultation, we propose using four core themes through which to assess the UK financial sector's transition. Objectives and indicators could be developed in reference to the original 2019 Green Financial Strategy goals.

[1] UK government, January 2023, **Net Zero Review: UK could do more to reap economic benefits of green growth**

CHAPTER 1

WHY A UK NET ZERO-ALIGNED FINANCIAL CENTRE?

The global green finance market is expected to grow at around 20% per year, reaching more than $22 trillion in 2031.[2] As global demand for green finance continues to rapidly increase, the UK financial sector has an opportunity to become a leading provider internationally of green financial services. For example, UK financial services firms could further assist overseas companies to list green financial products on UK markets, and UK investors could further unlock investment opportunities in global green infrastructure and economic development.

The UK has already established itself as a leading green financial centre over the past decade, with a reputation for expertise and transparency. The UK's leading financial centre, London, has regained its top position on the Global Green Finance Index[3] due to the quality and range of green finance products it offers. The UK's financial institutions played a major role in COP26, providing momentum for the Glasgow Finance Alliance for Net Zero (GFANZ), now covering more than 550 member firms in over 50 jurisdictions and representing more than half of global investable assets.[4] The UK is therefore well positioned to capitalise on the unprecedented levels of global growth expected in the decade ahead.

This opportunity was recognised by the then Chancellor Rishi Sunak at COP26 when he announced that the UK would be a Net Zero-Aligned Financial Centre. More elaboration of what this will mean is expected in the Green Finance Strategy, which is due for publication in Q1 2023. While the strategy cannot be a substitute for policy support and public investment, creating an effective Net Zero-Aligned Financial Centre[5] could amplify government action to accelerate net zero transition in the UK economy, and leverage this momentum to increase international competitiveness.

[2] Allied Market Research, September 2022, **Sustainable Finance Market Research, 2031**
[3] Long Finance & Financial Centre Futures, October 2022, **The Global Green Finance Index 10**
[4] GFANZ, **www.gfanzero.com/about/** (webpage, accessed March 2023)
[5] E3G, November 2021, **A net zero UK financial centre**

As a Net Zero-Aligned Financial Centre the UK can open up new investment opportunities internationally, through proactive action to scale up regulatory and technical capacity in Emerging Markets and Developing Economies (EMDEs). With a growing global population, particularly in large emerging economies,[6] there will be huge demand for investment in business and infrastructure that is resilient to climate risks, is aligned to net zero, helps to protect and restore nature, and provides sustainable prosperity through the creation of green jobs.

As well as supporting delivery of the UN's Sustainable Development Goals over the remainder of the decade, the UK can optimise the opportunity to create significant value, sharing in the revenues from a rapidly growing green finance market while supporting the creation of new sustainable jobs and helping economies transform to become fit for the future. Population growth in Commonwealth countries is expected to be 50% faster than the rest of the world over coming years.[7] The UK's international partnerships therefore provide additional advantages in driving sustainable growth in rapidly expanding emerging markets and capturing high demand for sustainable finance.

A Net Zero-Aligned Financial Centre can also bring transformative benefits at home. It will support both the UK's future economic growth, and attainment of its climate targets, by financing the activities required to reach net zero across the UK economy while strengthening its resilience to climate change. Investing in new infrastructure and in industries that provide inputs to key growth sectors will in turn create opportunities for sustainable jobs.

At the moment, despite high levels of awareness and significant momentum for net zero in the UK financial sector, the UK still faces an overall "delivery gap". The tools and interventions for achieving targets in some areas have been deemed to be nascent or absent.[8] The Net Zero Strategy estimated that the UK requires investment of £50–60 billion per year in the late-2020s and 2030s to reach net zero. This is five times more than is now being mobilised, leaving a significant investment gap that will need to be filled primarily by private sector sources.[9]

[6] United Nations, 2022, **World Population Prospects 2022**
[7] Commonwealth Innovation, **Population projection in the Commonwealth** (webpage, accessed March 2023), data source: UN World Population Prospects
[8] Bankers for Net Zero, 2021, **Mind the delivery gap: Achieving net zero through finance and policy (PDF)**
[9] Chris Skidmore, January 2023, **Mission Zero: Independent review of net zero – final report**, par. 532.

The UK could realise considerable financial, economic, and social benefits from a rapid shift in capital towards net zero-aligned investments.[10] These benefits include:

> Supporting the new infrastructure and emerging industries required for a net zero economy and reducing the risk of sinking public and private capital into stranded assets.

> Increasing UK energy security, lowering energy costs for households and reducing the risk of inflation by making buildings more efficient and building a modern, zero carbon energy system.

> Supporting levelling up through the creation of good quality green jobs, including in critical areas such as the Midlands, the North, and Scotland.[11]

> Enabling protection and restoration of nature, together with the associated economic benefits including climate resilience and adaptation.

Other major economies are taking steps to address such gaps and take advantage of the benefits. The Inflation Reduction Act in the US and the Green Deal Industrial Plan in the EU have demonstrated a step-change in public policy and financial support for green investment and net zero transition. The sooner that UK industries make a net zero transition, the more competitive British business will become in global markets where consumer demand and international trade rules will increasingly consider climate and environmental factors.

[10] E3G, November 2021, **A net zero UK financial centre**
[11] Onward, March 2021, **Greening the giants: Decarbonising carbon-intensive industries**

CHAPTER 2

WHAT DOES A NET ZERO-ALIGNED FINANCIAL CENTRE LOOK LIKE?

Financial institutions are no longer depicted or perceived as passive recipients of economic trends. Financial institutions are upstream change agents with the ability to create positive and negative downstream impacts for the real economy. Therefore, when we think about a Net Zero-Aligned Financial Sector, we should first consider the **financial sector's role in driving transition**, or in holding transition back.

All financial flows contribute to positive and negative impacts to some extent, though financial institutions and instruments vary in terms of the risk and return sought on the spectrum of capital. Measuring and monitoring environmental impact in financial institutions has become more comprehensive and sophisticated in recent years, including methodologies set out by the Partnership for Carbon Accounting Financials (PCAF) and the Science Based Targets Initiative for measuring financed emissions and **assessing the decarbonisation of finance**. These methodologies now have global coverage and are referred to in other frameworks (such as TCFD[12]), and have enabled a more robust understanding of how a financial sector is performing in terms of its underlying financial portfolio footprint, which on average is estimated to be around 700 times the operational emissions of financial institutions.[13] Recently, the European Central Bank[14] announced its own set of financial sector climate indicators covering carbon emissions financed by financial institutions. These include the carbon intensity of the institution's securities and loan portfolios, and the sector's exposure to counterparties with carbon-intensive business models.

Financial firms interact with all other parts of the economy. They can play a key role over the next decades in protecting financial stability during the net zero transition, by adapting over time to take full account of climate and sustainability issues, supported by disclosure of high-quality data. Financial institutions can

[12] Taskforce for Climate-related Financial Disclosure, **https://www.fsb-tcfd.org/** (webpage, accessed March 2023)

[13] CDP, April 2021, **Finance sector's funded emissions over 700 times greater than its own**

[14] ECB, January 2023, **Towards climate-related statistical indicators (PDF)**

become reliable partners in a volatile future by **ensuring high standards of transparency and integrity**, taking consistent approaches to recognising climate impacts and risk, and developing appropriate solutions for clients.

The Skidmore Review concluded that the revised Green Finance Strategy should, among other things, set out:

> A clear, robust and ambitious approach to disclosure, standard setting, and scaling up green finance.

> An implementation plan for Sustainable Disclosure Requirements across the economy.

> A clear, long-term plan for attracting capital to meet net zero ambitions.

> How to maintain the UK's position as the leading green finance hub internationally, and metrics for success.

In a Net Zero-Aligned Financial Centre the UK financial sector will be expected to maintain the highest sustainability standards in its own operations and in the activities that it finances, and demonstrate high integrity in its commitments, implementation, and disclosures. Financial regulators recognise the importance of market integrity and consumer protection and have already started to address the risks of greenwashing and insufficient market transparency. Financial firms have acknowledged that greenwashing causes significant reputational damage, impacting revenue generation and access to capital.[15] The FCA has stated that it is fully behind the government's plans for a Net Zero-Aligned Financial Centre and intends to "clamp down on greenwashing".[16]

Besides the updated regulatory approaches that will likely be announced in the revised Green Finance Strategy, the credibility and effectiveness of the UK's approach to green finance will most likely be judged on its practical implementation. This will include following through on some of the flagship announcements and initiatives that have been set out by the government and advisory groups (such as the Green Technical Advisory Group and the Transition Plan Taskforce). For example, the extent to which companies and financial institutions robustly implement the guidance set out by the Transition Plan

[15] HSBC annual report disclosure, reported in Bloomberg, February 2023, **HSBC says greenwash risks have potential to impede market access**

[16] Emily Shepperd, Executive Director of Authorisations, FCA, in Financial Times, February 2023, **The danger of debt-for-nature deals**

Taskforce will signal the effectiveness of the UK's strategy in respect of net zero transition plans.

The financial sector drives change in the real economy in many different ways, not merely by providing funding. Financial institutions will need to be effective in helping their clients transition within the economy, navigating investment and sustainability decisions in helping those businesses become fit for the future – economically, socially and environmentally. As the global green finance market is expected to grow to around six times its size over the course of the decade,[17] there is a significant opportunity for the UK financial sector to build on its leading position.

As demand for green finance grows, so too will demand for sustainability expertise and competencies within financial institutions. In particular, leading green finance centres will need to demonstrate how they are embedding deeper sustainability practices across all of their activities in order to be fully competitive. A Net Zero-Aligned Financial Centre should be expected to consist of financial institutions with considerable sustainability awareness, knowledge and skills. This will require financial sector staff to have a high degree of understanding of sustainability concepts, analysing key dilemmas, integrating concepts of just transition and resilience into decision making, and aligning institutional influence on the direction of green finance policy. As such, a motivated green finance sector may be able to act as a catalyst for transition in many ways beyond their traditional, functional roles.

Financial sector transmission channels

Key transmission channels through which the financial sector can drive a resilient and 1.5 °C-aligned economic transformation include:

> **Management and distribution of climate and other environmental-related financial risks across the economy**, including transmitting regulatory signals by restricting or realistically pricing the cost of new investment in unsustainable activities, and responding objectively to market information in real-time to reduce the risk of short-term investment "bubbles".

> **Scaling up and mainstreaming of market investment into green and transition activities** by enabling the creation of new green and transition lending on balance sheets, and by appropriately adjusting the cost of capital

[17] Allied Market Research, September 2022, **Sustainable Finance Market Research, 2031**

for different types of investment. The latter should use various mechanisms (including aggregation/securitisation), and make adjustments in line with both top-down policy signals and bottom-up market information made available, for example, through firm-level transition plans and equity capital funding. For new approaches and technologies, a greater diversity of funding streams may be required, including concessional or public finance. The UK can use its unique public finance vehicles, such as UKIB, UKEF, BII and the BBB, to leverage private sector investment.

> **Stewardship and active investment** (including divestment and phase-out) in line with regulatory and policy signals as well as in response to market and retail customer expectations. At present more than two-thirds of the UK population would like to invest sustainably, and yet only one-eighth of the population does so, which demonstrates the latent unmet demand for green finance amongst UK savers.[18,19]

> **Financial institutions often provide more than finance** even when these services are not measured directly. Depending on the nature of their client relationships, often they can provide:

- financial expertise as a sounding board to corporate clients
- data aggregation across sectors
- business connections across their network
- insights on risks and opportunities
- proactive engagement with policymakers and regulators on net zero policy (for example, implementation of carbon pricing and carbon-border adjustments, price-support mechanisms)
- tools to help clients with their financial and/or impact management.

These strategic interventions will be articulated in more detail in financial institutions' own transition plans in the context of their business model and operating environment.

The financial sector is also well placed to identify and be an early adopter of innovative new practices and norms. New financial sector norms have consistently been incubated in the ESG space before becoming mainstreamed,

[18] Private Banker International, April 2022, **Earth Day 2022: UK investors slow on sustainable investing**
[19] UK government, 2019, **Investing in a better world**

and have often been led from the UK. The UK's financial centres of expertise, including London and Edinburgh, are uniquely positioned as centres of both financial sector innovation and relevant third-sector expertise. Examples include:

> **Measurement and disclosure of climate-related risks and opportunities.** Standards for measurement and management of climate-related risks were first created by organisations such as London-based CDP[20] (formerly Carbon Disclosure Project) before being developed in a more official space by the TCFD. The TCFD's recommendations are now being converted to an international standard by the IFRS International Sustainability Standards Board (ISSB)[21] and are a requirement under UK law.[22]

> **Taxonomies.** Thresholds to define what real economy activity fits with a resilient and 1.5 °C-degree aligned economy were first developed in the context of green bonds, for example by the London-based Climate Bonds Initiative.[23] The UK has committed in the Greening Finance Roadmap[24] to creating a green taxonomy, which will be integrated into the Sustainability Disclosure Regime.

> **Transition Plans.** GFANZ is one of numerous organisations that have developed voluntary approaches to firm-level climate transition plans that set out a pathway to achieving a net zero target. The UK signalled a requirement to disclose climate transition plans in the Greening Finance Roadmap and created a Transition Plan Taskforce[25] to define best practice. UK firms are at the forefront of embedding just transition into investment practices, for example via the Financing a Just Transition Alliance.[26]

[20] CDP, **CDP Guidance for companies reporting on climate change** on behalf of investors and supply chain members (webpage accessed March 2023)

[21] IFRS International Sustainability Standards Board, **https://www.ifrs.org/groups/international-sustainability-standards-board/** (webpage, accessed March 2023)

[22] Anthesis, April 2022, **TCFD-Aligned Disclosures become Mandatory**

[23] Climate Bonds Initiative, **https://www.climatebonds.net/** (webpage accessed March 2023)

[24] HMT, October 2021, **Greening Finance: A Roadmap to Sustainable Investing**

[25] Transition Plan Taskforce, **https://transitiontaskforce.net/** (webpage accessed March 2023)

[26] Responsible Finance, November 2020, **Dozens of banks, investors and institutions commit to financing a just transition for the UK**

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CHAPTER 3
WHAT ENABLING CONDITIONS AND POLICIES WILL BE REQUIRED?

The financial sector can only play its full part in the system to drive change if it is itself subject to suitable drivers and incentives, including:

> **Certainty in policy and funding for real economy transition.** The financial sector will have confidence to invest if it sees a coherent, forward-looking policy and funding framework for net zero transition in the real economy. This should include elements such as a UK Net Zero Investment Plan for economic transition, removal of opposing policies such as inappropriate subsidies, and direct public finance action where necessary, for example in blended finance instruments to support the growth of new markets.

> **Tracking progress, enforcing implementation and continuously adapting to emerging insights.** To be successful over a transition of several decades, the UK will need a dynamic process for tracking progress in the whole-of-economy transition, including changes to net zero investment flows over time, identifying gaps and market barriers, and updating policy for the financial sector and real economy in response. An existing body such as the Committee on Climate Change or the Office for Budget Responsibility could assess, review and make recommendations on net zero financial flows and the UK's success in filling investment gaps and incentivising private sector investment, with expertise drawn from financial regulators and other relevant enterprise organisations. This role for an independent body is essential in helping to build up investor confidence in the quality of a plan that is regularly tested and revised. Tracking would enable the government to ensure that its strategies and policies are implemented fully by the market, using appropriate enforcement where necessary to ensure a level playing field.

> **Supervision and regulation of the financial sector that fully addresses and supports the sector's role in the net zero transition.** This will mean using a range of supervisory and regulatory tools to guide investment away from activities not compatible with a net zero economy, and to scale up finance into green and transition activities. This would include a pathway to transition the UK's stock exchanges so that they include the growth

companies of the future and set time-bound net zero expectations for listed companies. It would also include clear net zero objectives for UK regulators, to ensure that they have sufficient powers to support the UK transition. From an international perspective we have witnessed the transfer of voluntary frameworks (such as TCFD and green taxonomies) into mainstream regulation, with those jurisdictions which move first being considered to have higher levels of expertise and understanding of the interconnected social and environmental risks and opportunities underpinning economic investment cases. Regulation should reinforce the inclusion of social and environmental dimensions within definitions of financial materiality and fiduciary duty.

> **Integrating behavioural insights into incentives.** Integration of behavioural insights into financial regulation to support alignment with UK government's net zero and environmental strategy and address gaps in the investment market. For example, through the introduction of targeted fiscal benefits to drive investment into priority sectors, or changing financial advisor or pension benefit selections from sustainability opt-in to opt-out.

> **Aligning public finance policy and fiscal approaches.** Market certainty for private investors is greatly enhanced by demonstrating alignment of private sector incentives with public finance decisions. This could involve setting out mechanisms to align monetary and fiscal policy to optimise investment in the transition (such as a green Bank of England "Funding for Lending" scheme or TLTRO facilities) and targeted tax incentives to support innovation and technology (building upon existing schemes such as EIS, SEIS, VCT etc.).

> **Creating and facilitating access to consistent, decision-relevant data.** Enabling the infrastructure and protocols for open data across the UK economy will ensure easy, reliable and consistent data flows from economic sectors into the financial sector. Electronic reporting and digital tagging of sustainability data should be built into the UK's regulatory approach. This will enable comparison between institutions and promote institutional learning and development that can accelerate the transition. In collaboration with international data initiatives (such as the Net Zero Public Data Utility) the UK could take the lead in integrating the flows of international net zero finance data and apply this to finance flows from UK-headquartered financial institutions.

CHAPTER 4

HOW CAN THE UK MEASURE SUCCESSFUL FINANCIAL SECTOR TRANSITION?

To achieve a Net Zero-Aligned Financial Centre the government will need to set out a forward pathway and a process for tracking progress and identifying success. Indicative data points could be identified and consistently monitored over time to track progress. These indicators could relate both to private sector actions and investments, and to the status of the enabling conditions required for financial sector action.

In preparing the new Green Finance Strategy, the UK should build on the two goals of the 2019 strategy,[27] which were:

> To align private sector financial flows with clean, environmentally sustainable and resilient growth, supported by government action.

> To strengthen the competitiveness of the UK financial sector.

The development and measurement of indicators over time should be guided by a consistent set of design principles which also underpin the development of a Net Zero-Aligned Financial Centre. From these design principles it will be easier to form the specific objectives and most useful indicators to track success. Following consultation with financial sector stakeholders,[28] we propose that appropriate design principles might be:

> **Meeting the demands of UK consumers and business** for sustainable and Net Zero-Aligned finance products and services.

> **Science-based, consistent and clear regulatory signals, targets and timelines** to incentivise transition of each part of the financial sector, and with

[27] UK government, July 2019, **Green Finance Strategy**

[28] For example, in discussion at a roundtable convened by E3G and RePattern on 6 February 2023 and attended by a group of private sector firms, NGOs and government officials, and in light of subsequent written feedback from participants and other stakeholders.

sufficient granularity in guidance to highlight the specific finance gaps in the real economy sector transition.

> **A balanced approach to delivering on the UK's climate, economic, social and nature-based targets**, alongside an evaluation of negative consequences (to ensure that sustainable finance flows are checked against the principle of "Do No Significant Harm").

> **Clear objectives for UK international leadership**, by reinforcing the competitive advantage of maintaining the highest standards of transparency and integrity, and by international cooperation (by designing and implementing frameworks that are universally compatible and interoperable).

Building on the 2019 UK goals, together with the proposed design principles inspired by more recent stakeholder feedback, we propose that the UK's overall progress towards being a Net Zero-Aligned Financial Centre should be assessed with reference to the following two questions on an annual basis between now and 2050:

> **Is sufficient finance being provided to enable the necessary investment in the UK's transition to a resilient net zero emissions economy by 2050?**

> **Is the UK a leader in the global green finance market and is UK green finance activity supporting UK and global economic growth to the maximum extent possible, including supporting the transition of Emerging Markets and Developing Economies?**

Themes, objectives and indicators

When considering what a Net Zero-Aligned Financial Centre could look like to meet the goals described above, E3G and RePattern have identified four core themes for potential progress indicators. These are:

1. The financial sector's role in driving the transition.
2. The decarbonisation of finance.
3. Ensuring high standards of transparency and integrity.
4. Embedding deeper sustainability practices.

Each of the core themes proposed by E3G and RePattern has an associated objective. For example, for “The financial sector’s role in driving the transition” the objective is “Mobilising sufficient capital for a successful transition”. Being clear about the objective behind each theme makes it easier to identify the most appropriate indicator(s).

Table 1 is an illustrative overview of proposed themes and objectives, together with potential forms of indicator. Stakeholder consultation and literature review have informed the choice of indicator form. Further details of proposed indicators including data sources, methods of analysis, and implementation timescales, are provided in the Annex.

Table 1: Themes, objectives and potential indicators

Core theme	Objective area	Potential form of indicator
Financial sector role in driving transition	Mobilising sufficient capital for a successful transition	Tracking flows of green (versus transition, neutral, misaligned) finance compared to UK finance gaps, and international trends per sector.
Decarbonisation of finance	Reducing financed emissions and real-economy impact	Maintaining stability of the UK financial sector by reducing exposure to transition risks by assessing the scope-3 financed emissions of the financial sector.
Ensuring high standards of transparency and integrity	Proactive engagement with policymakers and regulators to develop policies and regulations which will enable the development of a Net Zero-Aligned Financial Centre	Aligning the financial sector with policy efforts (directly and indirectly) to support net zero transition by supporting high sustainability standards set out by initiatives such as the Green Technical Advisory Group and the Transition Plan Taskforce.
Embedding deeper sustainability practices	Integrating Just Transition, Nature, Adaptation and Resilience into Net Zero strategies	Demonstrating leadership in understanding interconnected social and environmental impacts and their role in shaping financial risks and opportunities within the UK and overseas by tracking flows into economically disadvantaged areas, climate adaptation and nature restoration.

Management and monitoring process

Measuring progress towards becoming a Net Zero-Aligned Financial Centre will require an ongoing monitoring process, which can also inform management of policy delivery.

In creating this management and monitoring process, we would expect there to be an iterative process of selecting indicators that are best able at any given time to reflect progress against each objective, while also being feasible to collect and analyse from the available market data. The process should include monitoring the effectiveness of enabling conditions and policies.

Consideration should be given to what is the most useful way of determining whether an objective is being reached within an adequate timeframe. Consequently, there may be a variety of benchmark indicators which could be tracked concurrently with a variety of different forms and metrics, for example thresholds, rankings, peer-comparisons, and improvements.

There will be an important interrelationship between new tracking of financial sector transition benchmarks, and the planned tracking of green financial flows, which the government committed to carry out in the Net Zero Strategy. Some of the metrics may be the same, and the tracking could potentially be done by the same independent body. In each case, a review process could take place on a regular basis to find ways to improve data collection and data quality, assess progress against UK government targets and consider further intervention to accelerate progress.

Design of the management and monitoring process for achieving a Net Zero-Aligned Financial Centre could be overseen by a Working Group, chaired by HM Treasury, that could include the following types of members:

- **Government departments** – HMT/BT/ESNZ/DEFRA/DWP.
- **Regulators and relevant public bodies** – FCA and other UK financial regulators, Environment Agency, Committee on Climate Change.
- **Expertise from outside government** – Green Finance Institute, Universities, GFANZ, UNFCCC, experts from civil society and the financial industry.

In the context of transition, where we expect new technologies to emerge and are aware of the possibility for unexpected negative consequences, it will be important to have a regular and dynamic review process. Following the initial design of a management and monitoring process, an independent body set up to analyse net zero financial flows and define science-based benchmarks could provide continuous monitoring and advice to the government on the progress of implementation by market participants, review the effectiveness of the strategy, and provide updates to recommendations.

The UK's financial sector is one of its most important assets. It has the ability not only to transform the UK economy for green, resilient and energy secure outcomes, but also to make the UK a leader in financing the global transition. Building a Net Zero-Aligned Financial Centre is therefore the "opportunity of the century"[29] for the UK. By clearly capturing this potential in the design and monitoring framework of the Net Zero-Aligned Financial Centre, the UK can set itself up for success.

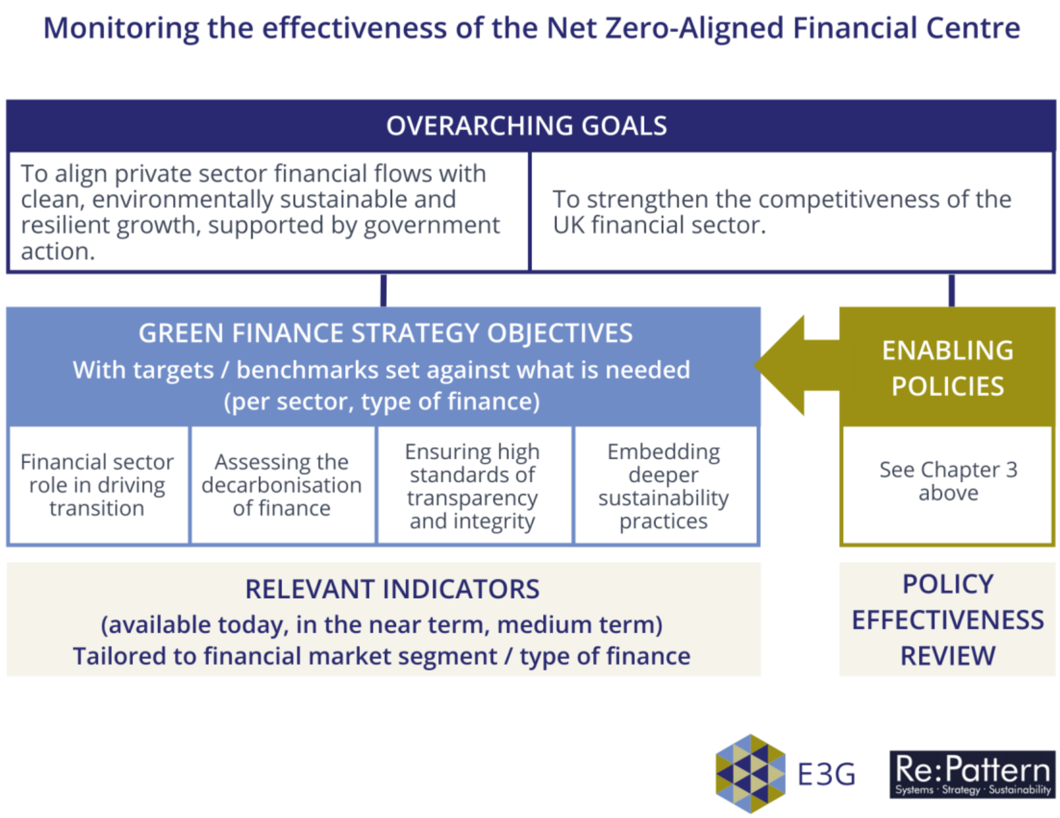

Figure 2: Mechanism to monitor the effectiveness of the enabling conditions and policies for the Net Zero-Aligned Financial Centre

[29] UK government, January 2023, **Net Zero Review: UK could do more to reap economic benefits of green growth**

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ANNEX: INDICATIVE KEY OBJECTIVES AND PROPOSED INDICATORS FOR NET ZERO-ALIGNED FINANCIAL CENTRE

Objective for Net Zero-Aligned Financial Centre	Policy enablers from UK Green Finance Strategy	Benchmark indicators		Timescale
		Enabling UK transition	Leading Global Green Finance Centre	Timeline for implementation
Core theme 1: Financial sector role in driving transition				
1. Playing the optimum role in decarbonising the UK economy	> Policy certainty in key economic sectors (energy markets, EV infrastructure, built environment, agriculture etc > Creating the supporting infrastructure for transition including advisory services, open data, tax and fiscal incentives, regulation and public finance[30] necessary for transition	> % of UK businesses which report that finance is not a barrier to net zero transition Source: regular survey via CBI/FSB or BEIS.	> Volume of international green and transition finance being raised via / invested from the UK for transition activity overseas. (£/$) Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans.	Intermediate (depending on timescale of TP roll out and uptake of qualitative disclosures)

[30] Rt Hon Chris Skidmore MP, January 2023, **Mission Zero: Independent review of net zero – final report**, par. 539

Objective for Net Zero-Aligned Financial Centre	Policy enablers from UK Green Finance Strategy	Benchmark indicators		Timescale
		Enabling UK transition	Leading Global Green Finance Centre	Timeline for implementation
	> Supporting collaboration and innovation via green finance regulatory sandboxes			
2. Mobilising sufficient capital for a successful transition.	> Continuously assessing the investment needs and sector specific funding gaps (with input from the CCC) > Reviewing prospectus and listing rules[31] to enable efficient and effective implementation of the high-integrity sustainability standards, net zero-aligned audit and accounts, underpinning competitiveness through bolstering market trust, investor confidence and a zero-tolerance approach to greenwashing.	> The current (annual) UK funding gap for net zero[32] > Annual volumes of Green, Transition, Neutral and Misaligned Finance (public and private finance flows). > Growth in demand for UK green financial products Sources: Latest analysis from UK tracking of green financial flows. Latest version of UK Net Zero Investment Plan. Aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	> Annual volumes (globally) for issuance and/or investment in Green, Transition, Neutral and Misaligned Finance for UK-based financial institutions > % alignment of UK international financial flows, and FDI, with UK Green Taxonomy Sources: Latest analysis from UK tracking of green financial flows. Aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	Short term (2023+ as Net Zero Investment Plan is established)

[31] Rt Hon Chris Skidmore MP, January 2023, **Mission Zero: Independent review of net zero – final report**, par. 538

[32] Currently estimated to be £81–110bn, as per recent E3G analysis: Frontier Economics for E3G & WWF-UK, November 2022, **The UK's net zero investment gaps**

Objective for Net Zero-Aligned Financial Centre	Policy enablers from UK Green Finance Strategy	Benchmark indicators		Timescale
		Enabling UK transition	Leading Global Green Finance Centre	Timeline for implementation
3. Optimising finance for innovation through new and emerging technologies and approaches	> Setting up a mechanism to track financial flows into nascent, new and emerging climate solutions – for example into priority sectors such as green hydrogen, CCUS, nature-based solutions. > Coordinating with other public bodies such as UKRI and public finance bodies such as the British Business Bank and UK Infrastructure Bank to co-create innovation pathways which optimise the flow of funds into new sustainability sectors and solutions.	> Finance gaps for key sustainability innovation sectors in the UK (% gap / total investment required). > Regular assessment of type of finance most appropriate for net zero sectors. Source: Latest version of UK Net Zero Investment Plan.	> Volume of issuance / investment from the UK for sustainability innovation sectors overseas. Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	Short term (as part of Net Zero Investment Plan)
Core theme 2: Assessing the decarbonisation of finance				
1. Decarbonising finance – reducing financed emissions and real economy impact.	> Introduce mandatory financed emissions reporting on a consistent basis. > Enabling higher levels of data quality and efficiency by	> Total Scope 3 financed UK-based emissions per type of financial institution ($ktCO_2e$/£bn). > Total reduction in Scope-3 emissions based on previous year	> Scope 3 financed emissions per type of financial institution ($ktCO_2e$/£bn) on balance sheet /AUM and intensity of financed	Short term (2025 as per SDR timescale)

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Objective for Net Zero-Aligned Financial Centre	Policy enablers from UK Green Finance Strategy	Benchmark indicators		Timescale
		Enabling UK transition	Leading Global Green Finance Centre	Timeline for implementation
	coordinating with other public bodies (OFGEM, government departments, etc.)	portfolio (for example real economy decarbonisation). > Projected trajectory of cumulative financed UK emissions to next key milestone (e.g. 2030): S(financed emissions)/AUM. Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	emissions per economic sector (based on units of productivity). > Total facilitated Scope-3 financial emissions (via issuance, underwriting etc.) Sources: Existing reporting under carbon accounting mechanisms such as PCAF. Aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	
2. Reducing the carbon footprint of the UK's listed companies to net zero emissions by 2050.	> Setting out a forward UK listings regime that will attract the growth companies of the net zero economy, and phase out the listing of companies whose business model is not transitioning towards a resilient net zero economy by 2050	> Carbon intensity of UK stock exchanges (tCO_2e/£ market capital) Sources: Ongoing monitoring by UK exchanges and their regulator. Aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.		Intermediate
Core theme 3: Ensuring high standards of transparency and integrity				

Objective for Net Zero-Aligned Financial Centre	Policy enablers from UK Green Finance Strategy	Benchmark indicators		Timescale
		Enabling UK transition	Leading Global Green Finance Centre	Timeline for implementation
1. Upholding the highest standards in financial institution climate and environmental investment and lending policies.	> Review of the financial regulatory objectives to consider how to prioritise encouraging the highest standards in protecting the climate and environment (alongside Treating Customers Fairly). > Creating more public and stakeholder visibility about best practices and performance to incentivise progress. > Introduce prudential measures into regulation that protect UK financial markets from financial "carbon-bomb" risks.	> % of financial institutions with full disclosure on their climate-relevant policies including exclusion criteria and sector exit strategies. Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	> % (by volume) and list of financial institutions who have Science-Based Net Zero targets (and) are integrating full recommendations from GFANZ and the UN Expert Group on Net Zero Commitments. > % of firms with NDPE policies in place. > % of firms with exclusions for financing expansion of fossil fuels. Sources: GFANZ, civil society tracking. Over time these data points could be tracked by UK financial regulators	Intermediate (dependent on rollout of disclosure regime i.e. SDR)
2. Demonstrating the highest standards in issuing and interpreting Climate Transition Plans.	> Reporting on a consistent basis. > Reporting in line with established best practice	> % of transition plans deemed to include all key data points Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	> Number of countries adopting transition plan requirements that reference the UK TPT or use its principles to define guidance. Sources: HMT in-house monitoring and civil society tracking	Intermediate (dependent on TP/SDR rollout)

Objective for Net Zero-Aligned Financial Centre	Policy enablers from UK Green Finance Strategy	Benchmark indicators		Timescale
		Enabling UK transition	Leading Global Green Finance Centre	Timeline for implementation
Core theme 4: Embedding deeper sustainability practices				
1. Proactive engagement with policymakers and regulators to support policies and regulations that will enable the development of a Net Zero-Aligned Financial Centre.	> Ensuring that Transition Plans fully disclose all memberships and trade associations within their engagement strategies, together with how they advocate on climate and environmental policies and issues.	> % of firms issuing full declaration of all UK-based associations and disclosures on all advocacy positions on key climate and environmental policies. Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	> % of firms issuing full declaration of all associations and disclosures on all advocacy positions on key climate and environmental policies. Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	Short term (2025+ as per SDR timeline)
2. Integrating international reporting frameworks efficiently and effectively – ensuring high quality of data and reporting compatible with emerging norms.	> Supporting, encouraging and (over time) mandating implementation of key reporting frameworks for financial risk. For example: ISSB, TCFD – on climate; TNFD – on nature; TIFD – on inequality (in development). > Supporting, encouraging and (over time) mandating implementation of key impact	> % coverage of TCFD / TNFD/ ISSB / SDR recommendations within corporate sustainability reporting. > # Jurisdictions aligned with ISSB. Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.		Short term (2025+ as per SDR timeline)

Objective for Net Zero-Aligned Financial Centre	Policy enablers from UK Green Finance Strategy	Benchmark indicators		Timescale
		Enabling UK transition	Leading Global Green Finance Centre	Timeline for implementation
	management frameworks for environmental and social impacts via SDR.			
3. Integrating Just Transition into net zero-aligned strategies	> Integrate the NZAFC with broader levelling up agenda within the Green Finance Strategy, including establishing Just Transition KPIs and integrating social elements into disclosure requirements.	> Number of jobs created annually in green industries, by region. > Changes in regional inequality. > Investment in green economic development, green infrastructure and adaptation/resilience within specific regions of need.		Intermediate
4. Integrating Resilience, Adaptation, and protection for nature/biodiversity into investment strategies.	> Working with the financial sector to develop a climate and nature resilience framework. > Setting specific targets for adaptation and resilience investment and researching appropriate use of outcomes-based payments to provide revenue for new infrastructure. > Directing public finance (via BBB, UKIB and others) to support blended finance mechanisms to crowd in	> Volume of investment into Climate Resilience and Adaptation (£) and/or % of finance flow compared to the overall finance requirement. > % of financial institutions implementing the (future) UK Climate and Nature resilience framework. > % of UK firms reporting according to TNFD guidance.	> Volume of overseas Resilience and Adaptation finance raised via / invested from the UK (£/$) Sources: Latest analysis from UK tracking of green financial flows. Aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.	Intermediate/long term (dependent on integration of TNFD, and nature within TPs/SDR)

Objective for Net Zero-Aligned Financial Centre	Policy enablers from UK Green Finance Strategy	Benchmark indicators		Timescale
		Enabling UK transition	Leading Global Green Finance Centre	Timeline for implementation
	private finance.	> % of UK firms with transition plans aligning with the Global Biodiversity Framework. Sources: Latest analysis from UK tracking of green financial flows. Latest version of UK Net Zero Investment Plan. Aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.		
5. Skills, including educating and training all directors and employees to the highest levels on sustainable finance.	> Establishing a framework for sustainability "training & competence" within financial institutions alongside the current FCA Training & Competence framework. > Encourage high standards of skills training and competency via assuring educational and training content via the GFI Green Finance Education Charter.	> Levels of sustainability/ green finance education for key staff. Source: aggregated data from UK sustainability disclosures, including reports of progress against transition plans and alignment of investments with UK taxonomy.		Short/intermediate (dependent on green jobs taskforce plans and updated NZS)