

The UK Government's Green Finance Agenda

APPG roundtable, 15 May 2023

Introduction

In March 2023, UK Government departments, led by HM Treasury, published the revised Green Finance Strategy to turn the UK into the world's first net zero financial centre. HMG forecasts global ESG assets under management to reach \$34tn by 2026 (\$18.4tn in 2021). "Transformational tools" like the Green Taxonomy will help overcome challenges to meeting the Government's objective. A series of consultations, notably on ESG ratings, will also help build market integrity, guided by the Transition Plan Taskforce (TPT), which is laying down best practice for investors to follow.

Key takeaways

UK leadership

- The UK is backing international frameworks, "that's our competitive edge".
- Frameworks set at the international level are recognised across jurisdictions, this is important because finance is global. The UK is pushing for standards like ISSB to be clear and predictable.
- By contrast, the EU is stacking one ESG-related regulation on top of another without removing any, leading to a huge volume of reporting requirements.
- The UK was the first to introduce mandatory TCFD disclosures however and is moving forwards with the Green Finance Strategy, however, the "ship has sailed" with SFDR and KPIs. "The UK is a market leader in advice, we should be exporting that leadership".

Global frameworks and standards

- The coming ISSB standards will be the bedrock of global sustainability disclosures. However, it will be just a baseline, the UK can add to them.

- ESG/sustainable finance is moving quickly, ahead of regulators and across jurisdictions – e.g. EU funds are putting pressure on US funds to share KPIs under the EU regime. Regulation has to work globally. HMG recognises this and is trying to bring in other jurisdictions.
- There is a balancing act however, the UK cannot be too slow or have too high a stock of ESG regulation.

Reducing burden

- Businesses are faced with an “alphabet tsunami” of reporting frameworks. SMEs in particular do not have the time/resources to meet them.
- “There are some deep, liquid capital markets in the UK”. Multinationals are listed in the UK to raise green finance, but their operations are global, “equivalence” is therefore a priority.
- Example with the built environment: In the UK businesses report on percentage exposure to energy-inefficient assets, the EU requires energy performance certificates, other disclosures are required elsewhere, companies consequently devise their own methodologies to provide estimates which can be inaccurate.
- SMEs: Equivalence is necessary, “but one size does not fit all, smaller businesses are months behind”. There is an argument to slow down. This is a difficult balancing act, there won't be another Green Finance Strategy for the foreseeable, but we need to move the agenda forward.
- We must acknowledge that if we do something differently to the EU's ESG regime, which can be a “nightmare to navigate”, we create more problems for businesses globally.

Transition/impact

- The reporting burden is so severe that sustainability teams of 40-plus will only have a couple of experts focused on impact/transition, the rest are preparing reports.
- The three key policies, ESG reporting, transition and the Green Taxonomy principally address company behaviour rather than actively driving innovative solutions towards impact/transition. Example: Ecuador's recent purchase of its own debt with the yield being put towards conservation of the Galápagos Islands.

Issues raised

Social

Has the 'S' been forgotten by the TPT? Answer: No, it is slowly being integrated. In February, the taskforce announced new working groups on nature, adaptation and just transition. However, these considerations will not feed into guidance until a later stage.

Ratings

The Government's ESG ratings consultation only looks at whether they should be regulated – e.g. conflicts of interest – not how. The consultation does not extend to the question of what is green/sustainable. Should it not take that step so that ratings are aligned with the Taxonomy?

Emerging markets

A key question is whether new frameworks are going to drive investment towards emerging markets where so much of the opportunity is, or are the requirements too difficult to meet? We are seeing this with the EU Taxonomy, which is based on EU law that does not apply elsewhere.

Outcomes and future actions

Major shift in corporate decision-making

ESG is overseeing a “coming together of the old and new economy”. Scientists and non-financial experts are “transacting” with traditional business analysts in making investment and corporate decisions. This represents an important shift that should be encouraged to help spur transition as well as growth and competitiveness. There needs to be a framework to facilitate these transactions, which would help bring about consistency and integrity in KPIs.

Guidelines to support equivalence

“We are in the thick of it now, so what do we do with it”. Businesses have to navigate across jurisdictions – the UK, the EU, the US – and incorporate numerous requirements in their annual reports. Guidance on what the UK is prepared to recognise from other jurisdictions would put Britain “front and centre of the global economy, otherwise, we’re just another country with another regime”. FAQs are not enough, we need to do something more substantial.

Voluntary carbon markets

In the drive towards high-integrity carbon markets that allow organisations to purchase high quality credits, the UK should pursue better oversight, ratified accounting principles and guidelines.

We would also like to thank the members of our Advisory Board for their contributions and continuing support.

BAE SYSTEMS



CBRE Investment Management



Linklaters

Sage

SHORE CAPITAL
CAPITAL MARKETS



To get involved, please contact

secretariat@appgesg.org



Environmental,
Social, and
Governance

This is not an official publication of the House of Commons or the House of Lords. It has not been approved by either House or its committees. All-Party Parliamentary Groups are informal groups of Members of both Houses with a common interest in particular issues. The views expressed in this document are those of the group.