



HM Treasury

Options for taking action on Principle 5

Why is Principle 5 important?

Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Article 2.1c, Paris Agreement



Background: Green Finance



1. Financing Green: mobilization of private capital into environmental and sustainable projects and infrastructure.



2. Greening Finance: Ensuring that climate-related risks and opportunities are priced into financial decision-making.



The UK's Green Finance Strategy

Published on 2nd July 2019.

Objective:

- to align private sector financial flows with clean, environmentally sustainable and resilient growth

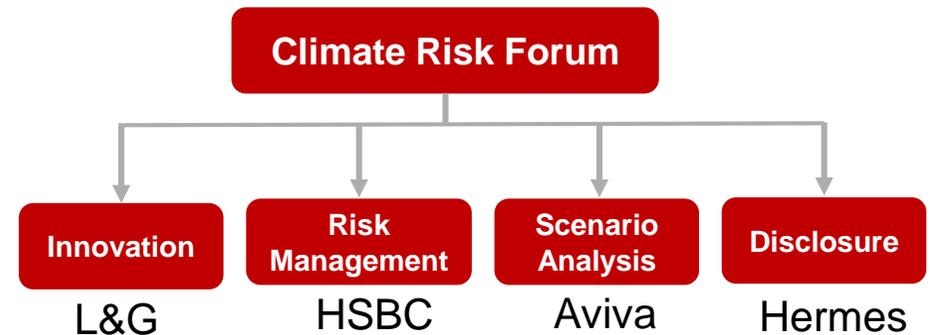
Chapters:

- Financing Green
- Greening Finance
- Capturing the Opportunity



1. Financing Green: *Facilitate dialogue between financial sector, real economy, government, and regulators*

- **Green Finance Institute:** In July 2019, the GFI was launched, funded by government and the City of London, as the principal forum for public and private collaboration.
- The Financial Conduct Authority and the Prudential Regulation Authority have established a **Climate Financial Risk Forum** to build capacity and share best practice across financial regulators and the private sector.



1. **Financing Green:** *Drive innovation in green financial products by supporting financial technology to foster new products (1)*

- **Clean Growth venture capital fund** £20million matched by private sector invested on commercial terms in UK companies seeking to commercialise promising technologies.
- The UK government launched a £5 million **Green Home Finance Innovation Fund** to pilot over 18 months green home finance products (e.g Green Mortgages)



1. Financing Green: *Drive innovation in green financial products by supporting financial technology to foster new products (2)*

- **The Financial Conduct Authority's Green Fintech Challenge** aims to support firms that require regulatory support in developing innovative green solutions. Nine firms were announced, including for example:
 - **Sustainability.Exchange**: a platform for corporate ESG performance ratings and blockchain-based prediction market
 - **Cogo**: an app that connects consumers with businesses that align with their social/ environmental values
 - **Neural Alpha**: developing a software platform for matching investors' sustainability preferences to investments.
 - **Enian**: a machine learning tool using satellite data and wind power assets to predict investment return for greenfield projects



1. Financing Green: Drive innovation in green financial products by supporting financial technology to foster new products (3)



- The **Green Finance Institute** has launched sector-based and place-based mission-led coalition to unlock barriers to the deployment of capital in collaboration with industry:
 - Scale up financial solutions to improve the **energy efficiency** of UK buildings;
 - Build capacity/ financial instruments to finance **resilient infrastructure** in UK and abroad; and
 - Finance sustainable commodity production across **supply chains** (as members of the new Global Resource Initiative Taskforce).
- The **London Stock Exchange**

1. Financing Green: Consumer awareness

- **Investing in a better world project:**
Understanding the UK public's demand for opportunities to invest in the Sustainable Development Goals, including through a nationally representative survey.
- **56%** of people would opt for a fully or partially sustainable pension.
- **68%** say that they would tick a box to indicate they would like their investment to be sustainable if given the choice to do so.
- **3 in 5** people believe that financial institutions should avoid investing in companies that harm people or the planet.

Figure 8: Survey results for investments to avoid harm or achieve good



1. Financing Green: *Stewardship*

- The **UK Stewardship code** is part of UK company law which sets out the principals that institutional investors are expected to follow, when investing money on behalf of savers and pensions.
- In particular, the new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
- Signatories will be expected to take environmental, social and governance factors, including climate change, into account and to ensure their investment decisions are aligned with the needs of their clients.



2. Greening Finance: *Ensure regulators and supervisors have a clear understanding of climate change risk and its relevance to their mandates*

- In the **Green Finance Strategy**, the government committed to ensuring that the financial regulators (FCA, PRA, FPC, TPR) have regard to climate change and the Paris Agreement when advancing their objectives and discharging their functions, by reflecting this in the remit and recommendations letters that HM Treasury issues to each authority.
- UK regulators have issued a **joint statement on climate change** to set out how climate-related financial risks require a coordinated approach and collective action to address



2. Greening Finance: *Encourage Climate-related Financial Disclosures*

- UK set the **expectation** for all listed companies and large asset owners to be disclosing in line with the recommendations of the Taskforce for Climate related Financial Disclosures (TCFD) by 2022.
- UK Government have established a **joint Taskforce** with UK regulators, chaired by the Government, to ensure a co-ordinated approach on climate-related financial issues and examine the most effective way to approach disclosure, including the appropriateness of mandatory reporting.
- The UK's Financial Conduct Authority (FCA) announced that they will consult on including TCFD in their listing rules on a comply or explain basis in their listing rules.
- Work of the FRC and Pensions regulator
- Sovereign exposure to TCFD



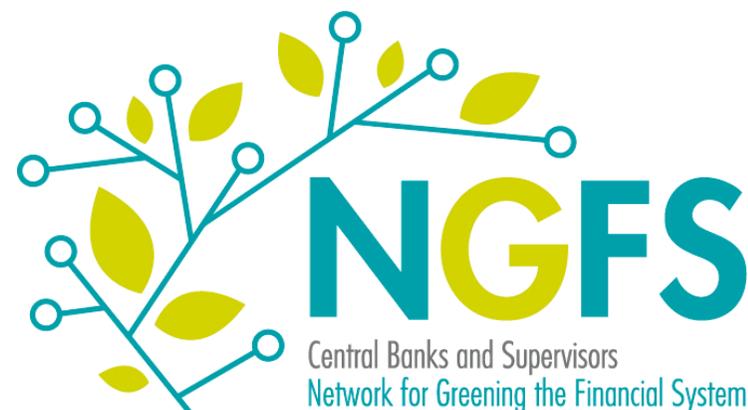
2. Greening Finance: *encourage pension schemes to take account of climate risk*

- In 2018, the UK government clarified **trustees'** fiduciary duty in relation to Environmental, Social and Governance (ESG) factors, including climate change.
- The UK's Pensions Regulators co-established an **industry working group on climate change** to produce guidance for pension schemes on climate-related practices across governance, risk management, scenario analysis, and disclosure.
- Role for public sector pensions?



2. Greening Finance: Action by central banks (internationally)

- Central banks and supervisors established the Network for Greening the Financial System (NGFS) to promote best practice across 3 workstreams:
 - Microprudential/ Supervision (chaired by the People's Bank of China);
 - Macrofinancial (chaired by the Bank of England);
 - Scaling up green finance (chaired by Deutsche Bundesbank).
- The group released the first comprehensive report in April, and plans to publish a supervisory handbook and guidance on the use of scenario analysis in April 2020.



2. Greening Finance: *central banks (domestically)*

- The Bank of England issued a **Supervisory Statement** in April 2019, setting out expectations in four areas: risk management, governance, scenario analysis, disclosure.
- The **Climate Financial Risk Forum** develops best practice across financial regulators and industry to produce practical handbooks and case studies to share with industry more widely.
- The PRA included a climate change scenario in its **stress test for life and general insurers** in June 2019.
- The Bank of England has announced plans to test the financial system's resilience to climate-related financial risks as part of the **Biennial Exploratory Scenario (BES) stress test**.



Questions

We are interested in what Coalition members are doing as part of Principle 5:

- 1. What are your country priorities under Principle 5?**
- 2. Could you see some of the initiatives mentioned above working your own country / are you already implementing similar policy initiatives?**
- 3. What have been the barriers to progress?**