

Policy update: The Green Finance Taskforce

What has happened?

The Green Finance Taskforce (GFT) this morning published its report to the UK Government, *Accelerating Green Finance*.¹ The GFT was set up in autumn 2017 to achieve three key goals:

- To help deliver the investment needed to meet the UK's Industrial Strategy and Clean Growth Strategy;
- To further consolidate the UK's leadership in financing international clean investment; and
- To maximise the opportunities to be had for UK businesses in this rapidly growing area.

The GFT is co-hosted by the Department for Business, Energy, and Industrial Strategy and HM Treasury. Its members represent senior sector experts from across the investment chain, NGOs and academia and bring a wealth of knowledge and expertise to this publication.

Why is this relevant to responsible investors?

The GFT report has ministerial backing from Climate Change Minister, Claire Perry and Economic Secretary to the Treasury, John Glen, who note in the foreword to the report that 'the transition to a low-carbon economy is a major opportunity for the UK' but that 'this cannot be achieved by Government alone'.

The report contains 30 recommendations under 10 overarching themes geared towards 'unlocking the private capital needed to make green finance more widely available throughout society.' These are outlined below:

Theme 1. Relaunch UK green finance activities through a new unified brand

1. The Government and the City of London should establish a new Green Finance Institute brand under which strengthened Green Finance Initiative capacity is established.
2. This new Institute should set up a Green Fintech Hub.
3. The Government and the new Institute should deliver a joint diplomatic strategy on green finance.

Theme 2. Improve climate risk management with advanced data and analytics

4. Private sector, academia and the Government should establish a Centre for Climate Analytics.

Theme 3. Implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

5. Companies and investors should use the TCFD framework to develop their financial, corporate governance and stewardship disclosures, and Government should conduct a review of disclosure in 2020 to monitor and encourage market adoption amongst both issuers and users.
6. Relevant financial regulators should integrate the TCFD recommendations throughout the existing UK corporate governance and reporting framework.

¹ Available at <http://greenfinanceinitiative.org/wp-content/uploads/2018/03/Accelerating-Green-Finance-GFT-FINAL-report.pdf>

7. The Government and relevant financial regulators must clarify in their guidelines that disclosing material environmental risks, including physical and transition climate-related risks, is already mandatory under existing law and practice.

Theme 4. Drive demand and supply for green lending products

8. The Government should extend 2035 EPC targets from residential properties to commercial properties by the end of 2018, and introduce a requirement for operational energy ratings from 2020.
9. The Government should introduce Green Building Passports for residential and commercial properties by 2020.
10. The Government should complete research to understand the opportunities and costs of using a range of fiscal measures to boost demand for energy efficient retrofits in 2018, and pilot fiscal measures alongside mortgage products from 2019.
11. The Government should provide short-term incentives to pump prime the green consumer loans and green mortgage markets.
12. UK lenders should work towards promoting awareness and mainstreaming a consideration of 'green' factors into all their mortgage lending decisions.

Theme 5. Boost investment into innovative clean technologies

13. The Government should set up a Green Investment Accelerator for early stage technology grant funding.
14. The Government should establish a dedicated public-private green venture capital fund.
15. Increase commercial opportunities for UK businesses through public procurement opportunities

Theme 6. Clarify investor roles and responsibilities

16. Relevant regulators should ensure fiduciary duty clearly states the importance of ESG issues.
17. The Government should require that the Statement of Investment Principles include statements on the extent to which social, ethical and environmental issues (including climate change) are considered.
18. Government should clarify that trustees should engage with their beneficiaries to understand their beneficiaries preferences and can make investment decisions that are based on these preferences.
19. The Government should clarify that investment consultants should have sufficient expertise and competency on ESG issues.
20. Investment advisors should ask clients about their sustainability preferences, and investment funds marketed directly to individuals should clearly state the environmental and social impacts of the fund.
21. The Government and professional bodies should develop competencies across a wider group of societal stakeholders through education tools.
22. The Financial Conduct Authority should require that corresponding requirements are put in place for contract-based schemes

Theme 7. Issue a sovereign green bond

23. The Government to issue a Sovereign Green Bond. This should be of the order of the French sovereign green bond, which was €9.697 billion, and be considered as one of the measures of a comprehensive UK Green Capital Raising Plan.

Theme 8. Build a green and resilient infrastructure pipeline

24. The Government should publish a National Capital Raising Plan explicitly designed to align UK infrastructure planning with the delivery of the Clean Growth Strategy and the 25 Year Environment Plan.

Theme 9. Foster inclusive prosperity by supporting local actors

25. The Government should set up a Local Development Finance fund
26. Boost demand from public bodies and their pension providers for diverse place-based low carbon investments.
27. The Government should set up Clean Growth Regeneration Zones.
28. Awareness raising of green finance opportunities among local authorities.

Theme 10. Integrate resilience into the green finance agenda

29. The Government should establish a national resilience unit to coordinate and champion climate resilience and ensure government investment is 'future proofed' to climate change.
30. The Government should publish an action plan to develop the resilience market.

More ambitious reforms for the future

In addition to the above recommendations the GFT identified potential reforms that 'require further development or for which the exact nature of implementation will in part be determined by ongoing negotiations over the trading relationship between the UK and EU after Brexit'.

The GFT members therefore do not believe the following recommendations are less important, but think greater clarity on the UK's relationship with the EU is needed before they can be implemented.

Reform 1. Provide further incentives for sterling issuers of green securities

- State aid rules currently prevent the Government from providing such incentives, but Brexit could provide new opportunities to do this.
 - Option 1: Through the removal of tax barriers and fast-track listings.
 - Option 2: Through grants for first time issuers as in Singapore.

Reform 2. Go beyond TCFD with Sustainability-related Disclosures

- The UK could consider a establishing a new and voluntary UK Sustainability-related Disclosures framework to introduce additional elements which were missing from the TCFD.
- This could include:
 - A new framework for measuring and reporting on impacts related to climate change, the environment and the SDGs;

- Clarifying reporting processes and standards for disclosing green revenues, asset-level data and committed emissions; and
- Setting out requirements for knowledge and training.

Reform 3. Increase allocations into illiquid asset classes to facilitate long-term investments

- TPR and the FCA should clarify and better promote existing guidance for DC assets which states that daily dealing is not required under regulations and which better aligns liquidity with member investment objectives.
- Further, the FCA should issue guidance on the necessary minimum standards of practice in relation to pricing fund assets to fairly value investment pots on entry to and exit from a fund.

Reform 4. Address barriers to sustainable investment

- Industry, the Government and regulators should work to identify any unnecessary regulatory and practical barriers that prevent or delay sustainable investments with a view to removing them.

Reform 5. Consider how the prudential regime for banks and insurers might better reflect the different financial risks associated with 'green' and 'brown' assets.

- In line with the recommendations of the EU's High Level Expert Group on Sustainable Finance, the Green Finance Initiative should convene a cross-sector working group to investigate the extent to which there is evidence that supports a financial risk differential between 'green' and 'brown' assets.
- In the light of that evidence, the PRA should consider how this might be reflected in the prudential framework.
- This work should also include staying close to international initiatives relating to the development of a green taxonomy and considering how this could be best applied in a UK context.