

Introduction

The UK Sustainable Investment and Finance Association (UKSIF) is the membership organisation for those in financial services committed to the growth of sustainable and responsible finance in the UK. We actively promote a more sustainable and inclusive financial system that works for the benefit of the environment and wider society. UKSIF represents a diverse range of financial services firms committed to these aims, and our 290+ members representing over £10trn of assets under management (AUM) include investment managers, pension funds, banks, financial advisers, data and research providers, NGOs, among others.

UKSIF and our members have played a prominent role in helping to embed sustainability in UK policymaking over recent years. For example, UKSIF was last year appointed a representative of the UK's Green Technical Advisory Group (GTAG) to advise on the delivery of the UK's 'green taxonomy' and we are working to ensure the taxonomy can set the highest standard possible for green investment for the rest of the world to follow.

We are very pleased to respond to the government's Call for Evidence to support the update of the UK's Green Finance Strategy. Three years on from the original Strategy, and just over six months on from the UK's hosting of COP26 last year, now is the opportune moment to consider how the UK can continue to make progress in 'greening' the financial sector at the pace and scale required to achieve the UK's ambitious decarbonisation objectives.

UKSIF's recent thought leadership [report](#) published in May this year-*Delivering a net-zero financial centre: Recommendations from UKSIF's 'net-zero inquiry'*¹- outlines a roadmap for how the UK can shift financial flows much more rapidly towards a net-zero pathway.¹ Our net-zero report, which involved very close consultation with over 200 senior representatives from across our membership, provides a number of recommendations for action for many of the questions outlined in this Call for Evidence.

We look forward to continued engagement with policymakers on the measures we propose in our recent net-zero report, and to actively contribute to creating the 'world's first net-zero financial centre', demonstrating the UK can once again lead the way in bringing about a more sustainable future. Below we outline our responses to many of the questions set out in this Call for Evidence.

1. What are the key characteristics of a leading global centre for green finance?

In our view, some of the key characteristics for a leading global centre for green finance include:

- **A world-leading policy framework that seeks to drive systems change across financial services:** this is an absolutely critical driver to ensure the rapid transition of financial services towards a sustainable future. There is more that can be done to build on the UK's existing strong position, including through promoting a robust, science-based 'green taxonomy'; an effective 'Sustainability Disclosures Requirements' (SDR) framework and investment labelling system that tackles risks posed by 'greenwashing'; and continued efforts to enhance investor stewardship to ensure it is more targeted and can encourage economy-wide alignment to a more sustainable pathway. A price on carbon is also essential, which our members see as critical to support a Paris-aligned future.
- **Good public understanding and awareness of 'green' financial products:** Ensuring consumers have a far better understanding of what constitutes a 'green' investment, and broadly are more able to confidently engage with their investment decisions, is another key characteristic. Finance needs to play a more prominent role in boosting clients' and savers' understanding, and help drive positive behavioural changes, taking steps to proactively engage with savers including in regards to their preferences on sustainability.
- **Leadership from financial services on tackling the pressing challenges we face:** As our members await further policymaker action to enable investments to flow towards the right areas to achieve a decarbonised economy, the industry should adopt certain steps in the interim. This includes taking actions which go beyond setting targets alone, such as properly considering the impacts of investments on biodiversity loss; assessing how 'Just Transition' considerations can be incorporated into engagement activity; undertaking proactive engagement with policymakers to shape their real economy policies; and consideration of impacts of investments, not just financial risks alone.² In regards to stewardship, investors should broaden their focus

¹In May this year, UKSIF published our ['Delivering a net-zero financial centre Recommendations from UKSIF's 'net-zero inquiry'](#), outlining a roadmap for how the UK can become the world's first net-zero financial centre.

²Firms, particularly larger and better resourced institutions, can take greater steps to identify their impacts and take more responsibility for where their investments are going, anticipating issues before formal regulations are introduced by authorities.

beyond investee companies, considering wider market actors including auditors, investment consultants, ESG ratings agencies, as well as policymakers.

- **Close co-operation with international partners:** A leading global centre for green finance needs to draw on the expertise and experiences of other leading jurisdictions to maintain this position, while promoting close co-operation with countries to address climate change. The UK should continue to consider how our initiatives on sustainable finance (e.g. our approach to SDR and investment labels) can be effectively exported to other countries, particularly those further behind in their sustainability journey, and seek to drive adoption of high standards across the world.³

Additional key characteristics include: an innovation-driven environment delivering good outcomes for consumers and promoting competition in financial services, and a nature-positive financial sector and economy, which will be key to delivering net-zero success.

2. Do you consider the UK's green finance regulatory framework to be world-class?

Generally speaking, UKSIF and our members see the UK's green finance regulatory framework as 'world-class' and having led the way globally in many respects.

This has promoted the success of the UK's sustainable finance industry and wider economy, while advancing our international leadership position on sustainability among financial services, investors, businesses and other groups. A number of measures have advanced the UK's green finance regulatory framework, and in recent years these have included:

- Becoming the first major industrialised economy to legislate in 2019 to reduce greenhouse gas emissions to net-zero by 2050, encouraging other countries to follow in our path.
- Being the first country in the G20 to enshrine in law mandatory Taskforce on Climate-related Financial Disclosures (TCFD) aligned requirements for the largest businesses to report on their climate-related risk and opportunities
- Reforms to the stewardship and corporate governance regime, including the creation of the world-leading UK Stewardship Code
- Clarification to fiduciary duties for pension scheme trustees on material environmental, social and governance (ESG) factors

We think the policies and signals provided by government and regulators have generally been effective over recent years, and helped to positively influence the finance sector's and companies' activities on sustainability and climate change.

With that said, there are additional opportunities the UK must now pursue, while ensuring we do not take actions that put the UK's hard-won leadership position at risk. This latter scenario is a very real possibility we fear in light of recent hugely worrying signals from government that it is renegeing on the UK's net-zero mission. These include: the recent decision by government to delay the upcoming implementation of the SDR framework, which will be critical to enhance companies' sustainability disclosures in the coming years; the expansion of support for domestic fossil fuel production; and related to this widespread reports that the UK's 'green taxonomy' will include natural gas activities. On the taxonomy, we strongly believe natural gas should not be incorporated and we urge government to choose the path of a purely science-based taxonomy.⁴

Given the urgency of the climate crisis, the UK must reaffirm its commitment to being a global leader in addressing climate change risks, and continue to introduce robust regulations for both financial services and the real economy. Regulation will play a key part, with some of our members concerned on a possible de-regulatory approach from government in light of the energy security crisis the world faces. We would strongly challenge the perception from some quarters that the UK's investment community, and businesses generally, favour 'light-touch' regulation, with many of UKSIF's members generally viewing greater regulation as sending the right signals and providing policy clarity to inform their investment decisions and capital allocation.

Finally, while a 'world-class' regulatory framework in the UK is vital, it will not be sufficient alone to address the scale of the climate crisis, and the UK will need to actively support other jurisdictions to move faster in addressing the impacts caused by climate change. One example we cite later in our response (see Q.30) is encouraging other

³The UK's investment labels system is an example of an initiative that could be exported to other countries, helping them draw on this as they consider their own labelling regimes. The UK has taken a lead over Europe and other jurisdictions in this area, increasing this likelihood we would argue.

⁴Alongside IIGCC and PRI, UKSIF wrote an [open letter](#) to government in June this year to express UK and global investors' concerns on the prospect of natural gas's inclusion in the UK's 'green taxonomy.'

countries to adopt the International Sustainability Standards Board (ISSB) sustainability reporting standards when these are finalised this year.

3. To what extent does the UK's private and public sectors have appropriate skills/capacity to attract international green finance flows?

We see a lack of appropriate skills and knowledge of sustainability issues among many financial services firms, and more widely, as a barrier in attracting 'green' financial flows to the UK and broadly embedding sustainability within finance.

We provide further detail later in our response to this Call for Evidence (see Question 27). At UKSIF, we continue to consider a bespoke skills and training programme to boost our members' understanding of sustainability risks and opportunities, with the demand from industry for such a programme very, very significant we expect.

4. What are the UK's comparative strengths and weaknesses in its green finance offering compared to other international financial centres? What are these are for: a) Asset management b) Capital markets c) Banking d) Insurance e) Professional services f) Fintech

Broadly speaking, the UK has a number of very important, well-regarded strengths in its green finance offering compared to other international financial centres. In terms of weaknesses to highlight, deep knowledge and skills in regards to sustainability issues within financial services is a critical issue that needs further collective consideration. The knowledge and talent gap is evident across the UK's financial services sector, with priority needing to be given to addressing this.

We provide further details on this area later in our response to this Call for Evidence (see Question 27).

5. How can the UK government measure progress towards becoming a leading global centre for green finance?

There are a number of existing sources, research and rankings that government could draw on in regards to measuring the UK's progress towards becoming a leading global centre for green finance. The UK could seek to publish its own rankings assessment in the years ahead.

The London-based think-tank, Z/Yen, publishes an annual 'Global Green Finance Index' that provides an assessment of the performance of financial centres in delivering green finance services. It is assembled by combining the views of financial services professionals from around the world, with quantitative data commissioned and curated from over 130 sources. Its last [report](#) highlighted that London had overtaken Amsterdam as a leading green finance centre.⁵

Separately, the Global Sustainable Investment Alliance (GSIA), an international collaboration of membership-based sustainable investment organisations around the world of which UKSIF is a member, maps the state of sustainable investment in major financial markets globally. Its latest [report](#) demonstrated that sustainable investment continues to be a major force shaping global capital markets, and, in turn is influencing companies and others seeking to raise capital in those global markets. It brings together regional data from across the United States, Canada, Japan, Australasia and Europe. It noted that sustainable investment in these markets had reached \$35.3 trillion in assets under management (AUM), having grown by 15% in two years. Although a useful guide, we would stress caution in using these figures, given there are some differences in methodologies used to calculate the proportion of sustainable AUM for every market.⁶

There may be a role for government to commission its own index to measure progress, with an independent body such as the Centre for Greening Finance leading this work. However, we would give far greater priority to tracking the UK's progress towards funding the identified investment needs for economic sectors to achieve decarbonisation, as we recommend in our recent '*Delivering a net-zero financial centre*' report.

⁵Z/Yen, [The Global Green Finance Index 8](#), October 2021.

⁶The Global Sustainable Investment Alliance (GSIA), [Global Sustainable Investment Review 2020](#), July 2021

6. What areas for potential growth – for example emerging financial products and instruments – are there in green finance for the UK financial services sector? Financing the UK’s energy security, climate and environmental objectives

In terms of areas for potential growth in the UK, these include the continued growth of climate conscious and ‘green’ financial products and funds seeking to address sustainability risks, and seizing the opportunities afforded by the transition.

The financial services sector has come some way in recent years in offering savers, pension funds, and other clients, climate-conscious financial products and funds. Many UK investment managers now offer a wide range of responsible investment products, such as ESG exchange traded funds (ETFs) and climate-change funds that seek to mitigate the risks of climate change, as well as social impact funds.

This is reflected in recent figures compiled by investment research organisations and others, showing rapid growth in these products. For example according to Morningstar, last year saw record investment of over £200 billion into European sustainable retail investment products, almost double the figure on 2019. Separately, Bloomberg has predicted responsible and sustainable financial products will account for around one-third of total global AUM by 2025.⁷

Increasingly, we are seeing funds being launched by our members that seek to specifically address biodiversity related risks and opportunities. This includes HSBC Global Asset Management’s series of natural capital funds in partnership with Pollination, aiming to channel billions of pounds into the long-term preservation and protection of nature, seeking to mainstream natural capital as an asset class and Invesco’s Water Resources ETF that invests in companies creating products designed to conserve and purify water for homes, businesses and industries. We see further opportunities for growth in the market that can help channel capital towards sustainable investments and projects, though a number of barriers remain (which our response discusses further below).

Finally, there are opportunities we see in relation to a broader range of asset classes, beyond simply equities alone, that could support the UK’s environmental ambitions. Further consideration could be given by investors and others to products to help support the transition of emerging market economies, which face particular challenges, though these funds will need to have an appropriate risk-return profile and robust investment criteria and objectives in place.

7. How can the UK support a financial system that leverages private investment to meet the UK’s climate and environmental objectives?

In our recent net-zero report, we outline specific recommendations for how the financial system could more effectively leverage the private investment required to meet the UK’s ambitious climate and environmental objectives. Our recommendations include:

- **Prioritising rapid action on a specific set of sectors of the UK’s economy to drive forward their decarbonisation:** a disciplined sectoral approach that convenes dialogues between government, investors, and corporates over the following areas would provide much greater certainty: a long-term financing framework to lower the cost of capital; a cross-party based policy framework to tackle the risks of future changes to regulation; facilitating a strong pipeline of projects including through effective project preparation; binding decarbonisation pathways, among other areas (such as sustainable usage of resources like water). Ultimately, these dialogues should lead to the publication of ‘clean investment roadmaps’ from government, specifically for a series of select, priority sectors. The UK’s ‘offshore wind sector deal’ from 2019 is a strong example of how a sectoral approach can deliver long-lasting positive changes and leverage private investment.
- **Clearer identification of funding gaps in the economy:** the UK needs to publicly track progress towards funding the identified investment needs for economic sectors to achieve decarbonisation. How the substantial public and private investment required to reach the UK’s emissions targets will be met remains a key unanswered question. This will be critical to deliver the UK’s ‘Net-Zero Strategy’ in practice, and to encourage the flow of private finance towards sustainable investments. A tracking function could be carried out by an independent body, such as the Office for Budget Responsibility, and in time help address the over-reliance we see on private finance in delivering the additional investment for sectors.
- **Appropriate signals and incentives in the real economy for investors:** these are needed in place first in the economy, with finance flowing to the right areas once investors have regulatory certainty and can be more confident of their future profitability. The commitments in the UK’s recent ‘Energy Security Strategy’ on North Sea oil and gas exploration, and more recent signals in this area, are an example of the wrong signals for

⁷Morningstar, How do Sustainable Funds Measure Up?, <https://www.morningstar.co.uk/uk/news/203214/do-sustainable-funds-beat-their-rivals.aspx> <https://www.morningstar.co.uk/uk/news/203214/do-sustainable-funds-beat-their-rivals.aspx>, June 2020.

sustainable investors, including on the credibility of the UK's plans to reduce emissions, particularly in light of the International Energy Agency's statement that new oil and gas projects should not be funded if the world is to achieve net-zero by the middle of this century. Long-term political support is crucial too to show that the political support needed to decarbonise individual sectors will be consistent in the long term.

8. How can the UK support a financial system that leverages private investment to meet the objectives of the British Energy Security Strategy, including in areas such as nuclear, hydrogen, carbon capture and storage and domestic oil and gas production, to reduce our reliance on imported fossil fuels as part of a smooth energy transition?

As we outlined in our recent report, we strongly believe that investment, both private and public, should not be leveraged towards the increased production of domestic, and overseas, oil and gas production. The commitments in the 'Energy Security Strategy' on the exploration of North Sea oil and gas projects are, we believe, hugely misguided and significantly conflict with the warnings from the scientific community and many other groups on the necessity for the world to rapidly reduce dependence on oil and gas exploration.

As highlighted previously in this response, the recent commitments on domestic oil and gas production provide the wrong, and confusing, signals to our members as the UK seeks to transition to a low-carbon future. We know alignment with a 1.5°C pathway will require the end of investment in new fossil fuel supply, and as the demand for fossil fuels declines across countries in the years ahead, there will be more heightened risks of 'stranded assets.'

The IEA has previously warned to investors that around \$300bn in fossil fuel assets could be left stranded by tougher climate policies from governments by 2035. Similarly, a report produced by a coalition of groups, organised by the Rainforest Action Network, has pointed to considerable systemic risks arising from bank lending towards fossil fuels, with global banks in 2020 providing \$742bn in financing to coal, oil and gas companies.⁸ Ultimately in time, a huge amount of oil and gas assets will become far less valuable for investors, meaning that private finance towards domestic oil and gas should not be encouraged today by government.

By contrast, the investor demand and appetite for investments into renewables is at an all-time high, particularly with the renewables market now very, very competitively priced. In relation to hydrogen, there are good opportunities for the UK to pursue, especially in regards to 'blue' and 'green' hydrogen, which can play a role in particular in hard-to-abate sectors such as heavy industry, cement and transport. Clear policy incentives and clarity on policy frameworks will be needed on hydrogen to promote private investment, for example to help tackle the risks in these investments to ensure assets do not become worthless over time.

9. What barriers are there to unlocking private investment to support the UK's energy security, climate and environmental objectives?

Our response above to Question 7 in the Call for Evidence identifies some of the key barriers to unlocking greater levels of private investment to support the UK's objectives.

To reiterate, these include: better identifying the funding gaps in the economy so that investors have a greater picture of which economic sectors require greater funding to achieve decarbonisation, and strong policy signals and incentives in the real economy with finance flowing to the right areas once investors have regulatory certainty and can be more confident of their future profitability. One specific lever that we have not yet highlighted in this response is in regards to the role of the UK's Infrastructure Bank.

We very warmly welcome the creation of the Bank, and the speed with which it has operationalised and started to deliver impact on the ground. Going forward, we would like to see the Bank consider the following issues further: providing proactive support for new sectors and technologies, particularly those that would otherwise have not received funding in markets and adopting an 'additionality' approach (e.g. in relation to energy efficiency, energy storage and nature); implementing a patient investment approach to enable the Bank to invest for the long term in transformative markets and to gradually build new markets; and effectively communicating to investors a suitable expectation around financial returns, particularly for new markets.

Clarification of investors' fiduciary duties too could ultimately help promote more sustainable investment decisions and unlock capital to support the UK's climate and environmental objectives. We continue to see a common lack of understanding within financial services on the extent to which ESG factors form part of these duties, and we believe this area requires urgent clarification. Our recent net-zero report highlights a number of avenues for this clarification

⁸[Banking on Climate Chaos. Fossil Fuel Finance Report 2021](#), March 2021. The report also found that banks have provided a total of \$4.6tn towards financing of fossil fuels since the Paris Agreement was signed in 2016.

to take place, including guidance and public statements from the Department for Work and Pensions and financial regulators that ESG issues (both risks and impacts) should be considered a core, existing component part of fiduciary duties. Major reforms, as opposed to clarification, to fiduciary duties would likely risks, including legal complexities for pension scheme trustees. The main issue we would argue has been the incorrect interpretation of fiduciary duties as opposed to issues with the definition itself.

10. How can the UK government assess and measure progress toward financing the UK's energy security, climate and environmental objectives?

As highlighted previously in this response, assessing and measuring progress towards financing the UK's energy security, climate, and environmental objectives is a vital area that needs further consideration by government.

Assessing the extent to which private financial flows are consistent with the UK's net-zero ambitions is very important, and can help us collectively evaluate the degree to which we are properly financing the transition. Separately to our recommendation for an independent body to track progress towards funding the identified investment needs for sectors to achieve decarbonisation, we would like to see consideration given by government to a 'net-zero test' applied across policymaking.

One way to deliver this would be for Treasury to introduce a dedicated 'net-zero section' at every Budget, and other fiscal events, outlining in a statement how the tax and spending decisions announced will bring the UK closer towards this objective. We hope this would, in time, lead to a far firmer expectation of Treasury that each Budget, and indeed other fiscal statements, have net-zero at their core. In time, we would like to see how a 'net-zero test' could be extended to nature, too. A 'net-zero test' that is applied to all tax and spending decisions announced at fiscal events could avoid the various missed opportunities we and other groups have noted at recent fiscal events. Given government spending represents more than 40% of national income, it is critical public funding is being invested in measures that are safeguarding the environment and promoting a greener economy, as opposed to funding activities harming the planet and incentivising negative behavioural changes.

The UK's Climate Change Committee (CCC) has, on a number of recent occasions, called for a 'net-zero test' to be introduced to ensure all policy decisions are subject to a rigorous assessment of how they contribute to meeting net-zero.⁹ The Committee recommends this should be cross-cutting and rigorously incorporated across Whitehall's policymaking, with the aim to fully embed net-zero considerations across government policies. Whitehall departments, which we understand will be responsible for the Technical Screening Criteria for the UK's 'green taxonomy', will have insight into the extent to which sectors' activities are sustainable, and this could inform their approach to embedding net-zero in decision-making. Separately to the CCC, various other groups have called for a similar test, including WWF and business organisations such as the CBI and Energy UK.¹⁰

12. Are there barriers to the mobilisation of private investment into transition activities? If so, what are they and how might they be overcome?

We see mobilising greater levels of investment, both public and private, into transition activities as an absolutely vital priority for policymakers, investors and others to address. This is because we know an overwhelming part of the UK and global economy needs to transition to more sustainable practices in the decades ahead in order for the world to meet its net-zero objectives, with only a very small part of the global economy considered 'green' today.

As previously highlighted in this response, policy certainty and incentives across the whole economy and particularly in those transitional activities, are absolutely necessary to help mobilise private finance. A disciplined sectoral approach, drawing on the positive experience of the UK's offshore wind sector deal, which convenes different groups to discuss decarbonisation pathways and a long-term financing framework, would be extremely useful. This approach could be applied specifically to transitional sectors and those particularly hard-to-abate sectors such as steel and cement.

Broadly speaking, a clear and transparent policy environment is absolutely necessary for investors, particularly given the high levels of capital mobilisation that will be required, and real change will need to come from all stakeholders in the economy, including government.

⁹For example, in their '[Independent Assessment: The UK's Net-Zero Strategy](#)' published in October last year, the CCC reiterated their recommendation for such a test.

¹⁰WWF's recent [report](#), published in October 2021, is a useful contribution to this debate, highlighting a 'net-zero test' could involve two elements: a 'budget tagging tool' assessing the alignment of all spending and taxation policies with a range of climate and other environmental criteria, and an 'emissions estimate tool', which calculates the potential impact of policy decisions made in budgets and spending reviews on greenhouse gas emissions, in order to assess the overall impact of fiscal events on progress towards net-zero.

Clarity for investors too on what constitutes a 'transitional' activity could be beneficial. This could be aided in future by consideration in the UK of a separate 'transitional environmental taxonomy', once work on the 'green taxonomy' is completed. This would encourage the substantial part of the economy that is not 'green' today towards more sustainable practices. It could ensure transitional activities are time-bound with clear 'phase-out dates' to help guide investors. A transitional taxonomy in the years ahead could have the benefit of avoiding the dilution of the criteria for the 'green taxonomy' that has happened in Europe, and would recognise investing in 'green activities' alone will not create the real-world change we need to see. This should only be considered when the 'green taxonomy' is embedded in UK law.

The upcoming introduction in the UK of robust climate transition plans for financial services and real economy companies should also help mobilise investment into transitional economic activities. It will provide, we hope, much greater clarity for investors on those companies that are fully committed to decarbonising their activities as the world transitions to a low-carbon future, giving them greater confidence to invest. This can be encouraged should the UK's 'gold-standard' transition plan present a truly holistic view of a company's decarbonisation journey, outlining climate targets but also wider material factors such as a company's plans to manage biodiversity risks (including their approach to disclosing against TNFD) and address the 'Just Transition'.¹¹ Our recent net-zero report outlines some views on the key components that we believe should form part of a 'gold-standard' transition plan.

Finally, we believe the sector has a prominent role itself in encouraging the successful transition of those transitional sectors and activities, with stewardship for example a prominent lever available to investors. Active stewardship with companies, particularly those in transitional and hard to abate sectors such as manufacturing, steel and cement, can speed up this journey. This has included some listed companies better reporting on the financial impact of climate change, in the process encouraging the flow of private finance towards these companies.

15. How can the UK best support the mobilisation of private investment to natural capital assets?

A significant barrier in regards to the mobilisation of private investment towards natural capital assets is the continued lack of a reliable stream of revenue, as well as understanding among investors on the role of private investment in nature-based solutions.

Convening different actors, including finance, government, companies, academics, environmental stakeholders, and others will be very important to identify barriers and co-operate over solutions to scale up private investment to natural capital. We support industry-wide and cross-sector initiatives seeking to help achieve this, such as 'GFI Hive' from the Green Finance Institute.

In terms of government's role, reforms to agricultural subsidy payments following the UK's departure from the EU would be beneficial. This includes considering how a subsidy system can benefit those groups that are delivering positive ecosystem services, and more efficient use of subsidies promoting productive and sustainable use of agriculture. Another issue relates to the need for better data on natural capital to overcome barriers in assessing progress and development.

Finally, we believe the UK Infrastructure Bank could play a more prominent role in supporting investments into nature-based solutions and private markets for ecosystem services, such as water quality, biodiversity and air quality. We have worked actively through a coalition of investors, business groups, civil society organisations and others, led by climate change think-tank E3G, to help ensure nature is considered in the Bank's investment mandate.

While positively the Chancellor has recently confirmed that the Bank will seek early opportunities for investments in nature-based solutions and ensure nature is incorporated in decision making, we would welcome further consideration to how a new investment objective focusing specifically on biodiversity and nature could be formally incorporated, alongside the Bank's existing net-zero and levelling-up mandates. This would recognise the significant potential of the Bank to leverage private capital towards nature-based solutions, such as flood defences and water infrastructure, and ensure biodiversity is explicitly targeted with not all projects having a positive climate impact necessarily benefitting biodiversity in all instances.¹²

¹¹We would encourage the Transition Plans Taskforce to place biodiversity and nature, alongside the 'Just Transition', at the core of its work and not treat these as non-priority issues for members of the Taskforce to consider.

¹²In a [letter](#) to the Chancellor of the Exchequer in September last year, UKSIF called on government to consider how the UK's Infrastructure Bank could deliver positive net biodiversity gains, and reflect this objective in its investment criteria.

18. How can local authorities support the mobilisation of private and public investment to key sectors and technologies for the UK's climate and environmental objectives, whilst also meeting local priorities? What barriers to this are there?

Local authorities have substantial powers and responsibilities around climate action, yet they frequently lack the resources or capacity to structure market-ready transactions.

We recommend the establishment of a central project preparation facility for local authorities with suitable technical resources to help councils structure transactions across a discrete number of key project types, such as energy efficiency (specifically council-owned buildings and social housing), electrification of local transport, renewable energy and climate change adaptation. Such a facility would aim to build deal-structuring capacity and expertise in local councils, develop a set of replicable project structures and ideally bring multiple similar projects together to aggregate transactions and build economies of scale.

It would also be tasked with making recommendations to government on financing solutions for areas the market cannot currently reach. For example, recommending the creation of government guarantees for specific project types. Government should look at the model of the C40 Cities Finance Facility, a project co-funded by BEIS's International Climate Fund, to determine the lessons that can be drawn from this project for local authorities in the UK.

20. How can the UK financial sector support SMEs and retail customers to align with the UK's climate and environmental objectives?

In relation to retail customers, financial services firms can take a number of steps to better support this group. Firms should seek ways to communicate much more innovatively with consumers, making greater use of digital solutions, by for example exploring innovative solutions such as mobile phone apps displaying the sustainability credentials of savers' investments alongside their financial returns.

Firms should recognise that a key barrier to sustainable investing can often be the language they use. Public education needs to be more of a priority – including more rigorously combatting the misconception that savers need to always accept lower returns when making investments that align with their environmental principles. Carefully explaining to consumers the multi-faceted nature of sustainability is vital, for example a sustainable fund may not necessarily focus on climate change alone, but may also consider other environmental issues such as biodiversity.

Carefully listening to savers' perspectives on ESG issues is another step the sector can take. We should not assume all groups have a very limited understanding of sustainability issues, or do not wish to make a positive impact with their investments. There has been a prevailing view that the younger generation cares the most about sustainability, but research published during UKSIF's 'Good Money Week' in 2021 showed this desire is not confined to a particular generation, with the 60+ demographic caring the most about sustainable finance options. The research also indicated that more than 80% of consumers interviewed care about sustainability issues, while more than 90% expect that sustainable financial services will become mainstream by 2025. The research highlighted that around two-thirds of consumers (63%) are looking for more sustainable options for products and services across all aspects of their life, with over half more likely to buy investment funds and products from financial services providers which demonstrate sustainable values.¹³

The financial services industry needs to give much greater priority to boosting clients and savers' understanding of their sustainable investment choices and seek to drive positive behavioural changes, particularly as we know savers are increasingly keen for the financial sector to address the serious risks posed by climate change to their investments, and for their beliefs and values in this area to be better reflected. Financial services can take further steps to offer funds and products that can effectively cater to savers' shifting attitudes.

21. Is there a role for the UK government to facilitate broad access to green finance for local authorities, SMEs or retail customers? If so, what should these roles be?

We would encourage government to actively engage with the recommendations outlined in recent reports by a number of small business focused organisations, such as the Federation of Small Businesses (FSB) and Bankers for Net-Zero, which have both published reports in the last year on access to green finance and addressing the specific challenges in achieving net-zero experienced by SMEs.

¹³PA Consulting, Financial services can change the world by empowering the conscious consumer, <https://www.goodmoneyweek.com/media/press-releases/pa-consulting-present-new-consumer-research-gmw2021>, October 2021.

In the FSB's ['Accelerating Progress: Empowering Small Businesses on the Journey to Net Zero'](#) report published in November last year, it proposes a lowering of capital requirements for banks' lending to small businesses that are looking to invest in green technologies and improvements or green improvements, echoing a measure we expressed support for in our recent net-zero report. The FSB's report highlights the flexibility the UK now has having left the EU, and lowering these requirements could now be considered by the PRA.¹⁴

Similarly, the Bankers for Net-Zero report, ['Mainstreaming Net-Zero: Mobilising SMEs for Climate Action'](#), stresses the potential for a lower cost of capital for SMEs looking to invest in green investments, with banks encouraged to offer lower interest rate loans to finance these investments by SMEs or making this contingent on SMEs achieving carbon reduction targets.¹⁵ Another recommendation from this report which warrants consideration is extending government-backed schemes to incorporate criteria around net-zero alignment. The British Business Bank's Enterprise Finance Guarantee (EFG) scheme could be extended and made more sustainable by making net-zero alignment part of the scheme's eligibility criteria.

22. How can the UK best support the development of high integrity voluntary markets for carbon and other ecosystem service markets?

We recommend the UK draw on existing, prominent global frameworks, such as Gold Standard and Verra, as it seeks to support the development of high-integrity voluntary carbon offset markets.

Greater clarity and regulation in this market will very important for investors over the coming years. The UK could draw on the methodologies used in these two frameworks, including the methodologies by which carbon offsets are certified and reviewing a project's record and performance. The methodologies these frameworks rely on are robust and publicly accessible to all stakeholders we understand.

Linked to this, consideration will need to be given to how the carbon offset market interacts with carbon pricing regimes around the world. We believe the time has now come for the UK to consider how to integrate carbon pricing more explicitly into the tax system. With two-thirds of emissions currently unpriced in the economy, many goods and services fail to reflect the true costs of their emissions, and there are a lack of incentives for companies to develop lower-emissions alternatives. We would like to see the UK's Emissions Trading System (ETS) expanded to cover more of the economy, including agriculture, a broader range of manufacturers, heating and transport, and in the longer term, the adoption of a comprehensive carbon pricing system to price emissions across the economy.

23. How can we ensure that these markets encourage robust action on the UK's climate and environmental goals, and appropriately scale up finance flows to support these?

Strict regulations governing carbon markets will be absolutely crucial to encourage robust action on the UK's climate and environmental goals.

We would like to see their use strictly defined within companies' climate transition plans with appropriate restrictions in place on their use, particularly within short-term targets set by companies. Also important is clarity over the definitions used to describe the offsets market, and enhancing our collective understanding of the various different terms used in this market, such as the differences between carbon offsets and carbon removals and carbon offsets versus carbon offset credits.

Broadly speaking, we continue to stress caution over excessive reliance on the use of carbon offsets by governments and companies, particularly those needing to transition to more sustainable practices. Offsets should be utilised as a 'last resort' in reducing emissions, especially in those very hard-to-abate sectors. For investors, we have concerns on their use in cases when they are relied on to achieve carbon neutrality in funds.

24. How should the UK harness the economic opportunities associated with high integrity growth in voluntary carbon markets and ecosystem services markets?

There is a potential market opportunity for London in capturing the growth in voluntary carbon markets we believe, which can be achieved by boosting transparency and liquidity in this market as highlighted in our response to Question 22.

¹⁴Federation of Small Business, [Accelerating Progress: Empowering Small Businesses on the Journey to Net-Zero](#), November 2021.

¹⁵Bankers for Net-Zero, [Mainstreaming Net-Zero: Mobilising SMEs for Climate Action](#), July 2021.

26. What are the key characteristics of a Net Zero-aligned Financial Centre? How would these characteristics apply to a typical UK-based: a. Bank b. Insurer c. Asset manager d. Regulated asset owner e. Listed company f. Large private company g. Small and medium size enterprise (SME) h. Retail investor i. Professional services firm j. or any other relevant industry participant

Our recent net-zero report sets out our perspectives on some of the key characteristics for a net-zero aligned financial centre.

This includes: the need for transformation of the real economy to shift financial flows towards net-zero; creating a world-leading 'green taxonomy' and sustainability disclosure regime; enhancing investor stewardship and engagement; bringing communities, clients, and savers on the net-zero journey; and ensuring the whole financial sector and real economy's (including unlisted companies) contribution towards net-zero.

In terms of how this would apply to specific sectors of financial services, there are various steps that each sub-sector should take to move investments and lending rapidly towards a net-zero future, which we outline in our report. For example, in relation to banks specifically, we believe the UK will not achieve its objective of becoming the first net-zero financial centre if fossil fuel extraction continues to be financed at the current, unsustainable rate.

In its upcoming review, the PRA should consider incentives that can bring down the costs and risk premium of lending to climate solutions, as well as measures that can make lending to fossil fuel activities, in particular coal, unattractive today. Separately to this, an area for further exploration could be to consider the merits of a 'one-for-one' risk management rule whereby for each pound that finances new fossil fuels, banks would have a pound of their funds held liable for possible losses. The regulator could also explore new modelling requirements for banks to ensure they can more effectively model and understand future climate-related credit risks. In relation to biodiversity, we are seeing particular exposure to biodiversity risks in the banking sector, and would support banks being included in the existing mandatory due-diligence obligations applying to companies through the Environment Act.

On SMEs, this is a key group that we believe has been left out of the net-zero discussion, with a lack of policy measures and incentives in place for SMEs to prioritise decarbonisation. One proposal we support is for business rates relief to be linked to investments in climate solutions, while more broadly the recommendations outlined in the Bankers for Net-Zero [report](#) from last year could be considered further by government, such as improving SMEs' access to robust climate-related data and their ability to consistently measure reporting of their carbon emissions. Further consideration should be given by policymakers to the role of SMEs and how they can be better supported during the transition, given they present the bulk of the UK economy.

27. What market barriers are there to the integration of environmental-related factors into financial decision-making?

While financial services and investors continue to make good progress in integrating environmental and wider sustainability factors into decision-making, a number of market barriers remain.

One issue remains the continued lack of common definitions and clarity on what constitutes a sustainable or 'green' investment product. There is absolutely a prominent role here for government and the sector to work hand in hand to address this, and upcoming regulations such as the 'green taxonomy' and 'Sustainability Disclosure Requirements' (SDR) framework and labels system will play an important part. Getting these reforms right will bring clarity and consistency for investors on how sustainability factors can be meaningfully integrated into investments.

A related issue is that sustainability itself is very subjective, and can mean very different things to different groups of savers, and indeed financial services firms. Some groups may wish to prioritise certain ESG considerations over others, with for example an individual keen for their investments to focus on addressing biodiversity risks and opportunities, while others may prefer to focus on diversity issues or other social factors. A sustainable fund is not necessarily only sustainable by addressing climate change alone.

The quality of climate and sustainability-related data is another barrier, with corporate data still not sufficiently robust and decision-useful to meaningfully inform investors' investment decisions and correctly price assets. Policymakers, both here at home and globally, need to continue to strengthen corporate disclosures and this includes among both listed and unlisted companies. Better disclosure is needed in the UK and globally, especially with financial services firms investing and lending across many different jurisdictions, and this development would help firms meet upcoming regulatory requirements, such as reporting against the 'green taxonomy'. A lack of progress in improving corporate disclosures in the coming years will result in continued over-reliance by investors and others on data estimates provided by ESG data and ratings providers, which remain imperfect.

Finally, there is a need to continue to significantly upskill financial services firms in their understanding of sustainability issues. Greater priority needs to be given across the sector, and companies more widely, to address the ongoing skills and knowledge gaps across sustainability issues. Internally, ESG training needs to filter down from the executive level to management teams to boost comprehension of these issues, while more diverse backgrounds should be more actively encouraged. We see a real 'skills deficit' in the finance sector, from pension schemes' trustee boards to financial advisers and many other groups, in terms of individuals with strong knowledge of both sustainability issues and financial services. This remains a key, unanswered area that collectively we all need to address as a priority.

28. What should the role of the UK government or regulators be to support the greening of the financial system? How could they go further?

UKSIF's recent net-zero report highlights a number of concrete recommendations and steps for how government and regulators can support the 'greening' of the financial system. We continue to support government's three phases to achieve this, including by better informing investors and consumers by addressing the information gap, acting on this information, and shifting financial flows to align with the UK's 2050 net-zero commitment, with progress we see being delivered in each of these areas.

In terms of further steps however, one area which has received relatively less attention has been the role played by ESG data and ratings providers, and unlisted companies in the economy.

As the demand for robust and decision-useful environmental, social and governance (ESG) data continues to grow, the role played by ESG data and ratings providers will become more fundamental to the finance sector's transition. We strongly believe the time has come for this group to be brought within the FCA's formal regulatory remit. Specifically, we would like to see regulation promote greater transparency in the market, focusing on ensuring proper practice, improving disclosures of the methodologies used to calculate different ratings, and tackling "conflicts of interest", rather than dictating how providers set their ratings. Transparency should be the over-arching objective here from policymakers rather than seeking greater convergence between providers' ratings.

Encouraging the disaggregation of ESG ratings, which does take place already in certain cases, would also be good to encourage. This could allow clients to gain a holistic picture on how a company (or fund) is addressing and performing across different sustainability issues, and potentially minimise the possibility of inadvertent harm from a sole focus on one aspect of ESG alone. The demand from clients in regards to ratings is evolving, with some preferring disaggregated measures while others preferring a total score, and this choice should remain we believe for clients.

We need to focus far more on addressing the data gaps across sustainable finance regulations, given how critical good data will be, across the board, in order for financial services firms to meet upcoming regulations such as reporting against the UK's 'green taxonomy' and SDR. We would be pleased to convene a group of our data provider members to specifically consider this area, and collectively how providers, investors and companies can collaborate to boost data quality.

In terms of the FCA's role, climate change and net-zero must now be baked into its day-to-day activities, building off the UK's announcement last year that regulators should 'have regard' to the 2050 net-zero target. We recommend Treasury introduce a new, formal operational objective for financial regulators to explicitly consider climate change and sustainability issues, including nature, in their activity. We expect this would require changes to the Financial Services and Markets Act 2000.

30. What steps can the UK government take to support a robust investment data ecosystem to attract green finance flows?

A key step that government can take to support a more robust investment data ecosystem is continued efforts to boost the overall quality of companies' disclosures on sustainability issues.

We know that corporate disclosures remain very inconsistent; for example, a recent [report](#) from FTSE Russell has shown that many companies are still not disclosing their carbon emissions, but instead relying on inaccurate data estimates. The study finds that there is a material disclosure gap, and considerable variation in reporting on sustainability issues according to company size, region, and sector. For instance, of the approximately 4,000 large and mid-sized constituents in the FTSE All World index, more than half currently disclose operational emissions data, but 42 per cent of large and mid-caps do not disclose both scope 1 and 2 emissions.¹⁶

¹⁶FTSE Russell, [Mind the gaps: Clarifying corporate carbon](#), May 2022.

This means it is critical that policymakers continue proactive efforts to strengthen corporate disclosures among listed and unlisted companies. One area of focus for the UK should be to accelerate the work of the International Sustainability Standards Board (ISSB) on global sustainability reporting standards, ensuring as high a possible 'minimum baseline' is set. We do not want the ISSB's recently published draft standards to be diluted in the coming months prior to these being finalised; a 'global baseline' should not imply low ambition.

We see a role for the UK to encourage the implementation of the ISSB's final standards by countries when these are published this year, particularly for those nations that are further behind in their sustainability journey. Another important development would be mandatory TCFD-aligned disclosures across a much wider group of countries and the UK can play a leadership role in promoting this trend.

At home, the UK should continue to roll out TCFD-wide disclosures across the whole economy in line with its 2025 deadline, and progress the upcoming implementation of disclosures under SDR which should not face delays. We are very disappointed to see its omission from government's legislative agenda in the Queen's Speech, and this needs to be fast-tracked in the UK's legislation. For ESG data providers, they rely heavily on companies' disclosures to undertake their data analyses that are shared with investor clients.

31. Are Scope 3 (supply chain) emissions data important for investors to assess and manage climate-related risks and opportunities?

Measurement of Scope 3 emissions remains very, very important in order for investors to accurately assess and manage climate-related risks and opportunities, particularly as policymakers and regulators demand these disclosures from investors. We know that we cannot achieve our net-zero mission without considering how we can more effectively address emissions in companies' supply chains and products, and this is an area that requires further collective consideration by government, financial services, civil society, and other groups.

It will be important for policymakers to continue to work closely with the financial services industry on promoting better measurement of Scope 3 emissions, estimations for these emissions, and actively supporting initiatives as these emerge.

One recently launched initiative is the CDP and Boston Consulting Group's platform enabling companies to share product-level sustainability data in an auditable way, including greater transparency over scope 3 emissions. We hope in time to have more common standards and methodologies to measure Scope 3 emissions, and to avoid issues we see such as 'double counting' of carbon emissions. There is a good case for mandatory disclosure of Scope 3 emissions in the next several years by the largest companies, and phased in across different parts of the economy as the data improves.

32. Is there a role for the UK government to support businesses (of different types and sizes) to make good quality Scope 3 emissions disclosures (including SMEs in the value chain of disclosing entities)? If so, what should this be?

There is certainly a role we see for the UK government to support businesses, of all types and sizes, to make good-quality Scope 3 emissions disclosures.

Government could actively encourage the disclosure of Scope 3 emissions, identifying 'best practice' among larger companies that smaller companies could draw on in their approach to these disclosures, and work with regulators on guidance to effectively disclose, drawing on existing frameworks. In time as mentioned, there should be in place mandatory reporting of Scope 3 emissions, starting with the largest companies before being phased in for other groups.

33. Up to 2030, how can the UK government best support the global transition to a net zero, nature-positive financial system that is both inclusive and resilient?

Our net-zero report sets out a series of steps that government and investors could adopt to support the transition to a net-zero and also nature-positive financial system. We know the UK's recently announced objective of achieving a net-zero financial centre will not be possible without a nature-positive economy.

More meaningful disclosure of nature risks is an important initial step in the UK, and clarity on how these disclosures will be integrated in the upcoming SDR regime is needed. Consideration should be given to incorporating, within SDR, disclosures against the Task Force on Nature-related Financial Disclosures (TNFD) framework following its launch in 2023, with an open consultation taking place with industry at this point. At the global level, in regards to TNFD we want the UK to play a prominent leadership role in supporting the work of the Taskforce, including

encouraging a broader group of countries, such as the G20, to engage with the TNFD and endorse its critical work. This would build momentum off the G7's endorsement of the Taskforce, which UKSIF and investors strongly welcomed at the time.

Domestically, we remain very disappointed that government has still not undertaken a wide-ranging response to the Dasgupta Review on biodiversity, with further action needed to take forward the Review's seminal work. For example, investors, regulators, civil society, and other groups could be convened to consider the implementation of some of the Review's findings into policymaking. We called for this action in a letter to the Chancellor of the Exchequer in October last year, believing government should quickly build off the momentum generated by the Review and seek to more explicitly integrate biodiversity risks and opportunities into financial services and companies' decision-making and its own policymaking. UKSIF would be pleased to help co-ordinate any efforts at convening such discussions. Finally, the UK should lead efforts to deliver a truly ambitious Post-2020 Global Biodiversity Framework at COP15 in China later this year, including the goal for financial flows to align with global biodiversity goals and targets.

Among investors, we believe finance has a role in pushing companies to better manage biodiversity risks and provide more robust data. This includes through stewardship and engagement; investors should broaden their expectations on companies' actions beyond climate change to encompass nature as well, for example pressuring companies to develop biodiversity action plans and set milestones, and assessing business dependencies on nature.

Finally, the UK could play a far more active part in highlighting the importance of a 'Just Transition'. We continue to back the creation of a UK-wide 'Just Transition Commission', based on Scotland's experience, to identify areas for long-term policy action. Among its considerations could be the publication of 'Just Transition roadmaps' for each sector of the economy, analysing those sectors where jobs are most at risk and of the reskilling interventions that are needed. We strongly believe that if we do not have a 'Just Transition', politically it will be impossible to deliver a transition at all and this must be a far greater focus of government's decision-making.

36. How can governments work with the financial sector to help align the global financial system with the Glasgow Leaders' Declaration goal of reversing forest loss and degradation by 2030?

We would like to see the UK government, and other governments, more actively encourage financial services institutions to sign on to commitments agreed at COP26 last year that aim to combat and reverse deforestation.

An example is the commitment made by more than 30 financial institutions, including a number of UKSIF members, to eliminate agricultural community-driven deforestation from their portfolios by 2025 through engagement. This includes through: engagement with corporates focused on deforestation, publicly disclosing risks and progress on efforts to tackle deforestation, and increasing investment in nature-based solutions.

More broadly, governments and regulators can make firmer expectations of investors in regards to their role to hold companies to account on managing biodiversity risks and providing robust disclosures in this area. We would like to see investors broaden their expectations on investee companies' actions beyond climate change to nature issues as well, and as part of their regular engagement call on companies to: produce biodiversity action plans, assess their dependencies and impacts on nature; identify key issue areas and locations in companies' value chains for the purposes of target-setting; be more transparent about deforestation risks in their supply chains and report on this more transparently; and consider comprehensive targets aligned with the Science Based Targets for Nature (SBTN) framework once guidance here has been finalised.