

## Treasury Select Committee: Inquiry into the Decarbonisation of the UK Economy and Green Finance Submission by Barclays

### About Barclays

Barclays is a transatlantic consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management, with a strong presence in our two home markets of the UK and the US. With over 325 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Barclays welcomes the Treasury Select Committee's inquiry into the decarbonisation of the UK economy and green finance, and is pleased to see increased government attention being given to this important topic. In particular, we welcome the Government's recent launch of its Green Finance Strategy and the establishment of the Green Finance Institute to help to drive public-private partnership.

We are pleased to be able to provide the Committee with an overview of Barclays' approach to both decarbonisation and green finance, and we also support the submissions made on behalf of the broader financial services industry by both UK Finance and the CBI.

### Introduction

Climate change represents one of the greatest challenges faced by the world today. Banks have an important role to play in ensuring that the world's energy needs are met while helping to limit the threat that climate change poses to people and to the natural environment.

Banks like Barclays have a direct environmental and social impact through our operational footprint, as well as indirectly in the way we mobilise capital, advise clients and develop products. We are a supporter of the goals of the Paris Accord and our aim is to help facilitate the transition to less carbon intensive sources of energy, while supporting economic development and growth in society by helping to ensure the world's energy needs are met responsibly.

This ambition is set out in our first-ever [Energy and Climate Change Statement](#), published in January this year, which shows how we intend to support the transition to less carbon intensive forms of energy by limiting our exposure to the most carbon intensive forms of fossil fuel and supporting the development of renewable energy through green finance. We will continue to keep our approach under review in support of that ambition.

Barclays is also an original member of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We endorsed its final report and we have committed to implementing its recommendations over the course of the next few years. That also includes the ambition, set out in the Green Finance Strategy, to make all listed companies and large asset owners disclose in line with TCFD recommendations by 2022.

## Barclays' Approach to the Decarbonisation of the UK Economy

Barclays plays an important role in supporting the transition towards the decarbonisation of the UK economy. To meet our ambitions of decarbonisation, Barclays looks at three focus areas:

### 1. *Financing the growth of renewable energy sources*

In addition to our range of green products (see below), we offer support to clients across three broad areas: climate change mitigation investment, climate change adaptation investment and strategic diversification & pivoting business models. This support ranges from helping our clients to decarbonise operating models and responding to the physical risks of climate change related extreme weather events, to advising clients on transactions and strategies to reposition their business while still maintaining competitiveness.

We are also committed to supporting entrepreneurs with ambitions to have a positive social and environmental impact. This is highlighted by our multi-year partnership with Unreasonable Group. Unreasonable Impact is the world's first international network of accelerators focused on scaling up entrepreneurial business that will help to solve critical environmental and societal challenges.

### 2. *Taking a responsible and sustainable approach to the necessary financing of energy sources that are more carbon intensive*

In January 2019, we published a new Energy & Climate Change Statement, which sets out our approach to financing in the energy sector. The Statement is underpinned by an internal Standard that provides guidance, restrictions and criteria that determines our approach to transactions in more sensitive, or high carbon energy sectors. Some of the guidelines and restrictions include:

- Engaging with existing corporate clients to understand plans for transitioning to a lower-carbon energy mix over the medium term if they a) generate more than 50% of revenue from thermal coal; or b) generate more than 50% of power from coal-fired power stations; or c) the combined revenue of both these activities constitutes the majority of total revenue;
- Ruling out project finance for new thermal coal mines and power stations anywhere in the world;
- Putting in place clear restrictions for financing directly connected with the exploration and extraction of oil or gas in the Arctic, and based on current restrictions we do not expect requests for project finance to meet those criteria; and
- Putting in place new criteria for assessing the local environmental impact, greenhouse gas intensity and impact on local populations for transactions involving the exploration, extraction, transportation (including the construction of new pipelines) and processing of oil sands.

### 3. *Reducing the carbon footprint of our own operations*

We have committed to procure 100% of our global operational energy needs from renewable sources by 2030 (and have already reduced our carbon emissions by 30% since 2015). We also have a Barclays energy efficiency program targeting 80% reduction in our Scope 1 and 2 emissions by 2025 (against a 2015 baseline).

## Barclays' Approach to Green Finance

Barclays recognises the shift needed to move towards a low-carbon future. We have developed a suite of green financial products, including three 'market firsts':

1. Barclays Green Home Mortgage;
2. Barclays Green Deposits, and
3. A 2017 issuance of Green Bonds, backed solely by UK assets.

In 2018 alone, we facilitated £27.3bn in financing for social and environmental segments. This includes developing a suite of leading green financial products and services to support our clients on their own transition to a lower-carbon economy and accelerate their investment in green initiatives.

### Barclays' green banking products:

Consumer	Product/Service Description
<b>Barclays Green Home Mortgage</b>	<p>The Barclays Green Home Mortgage rewards customers with a lower mortgage rate on certain deals when they purchase an energy efficient new build home. Barclays is the first major UK bank to offer a Green Mortgage product and has helped over one thousand customers buy energy efficient homes.</p> <p><a href="https://www.barclays.co.uk/mortgages/green-home-mortgage/">https://www.barclays.co.uk/mortgages/green-home-mortgage/</a></p>
<b>Impact Investing Proposition</b>	<p>Through our Impact Investing Proposition, Barclays is enabling our clients to invest intentionally to protect and grow their assets and make a positive contribution to our world. For example, this includes:</p> <ul style="list-style-type: none"> <li>• <b>Barclays Multi-Impact Growth Fund</b> – Our award-winning UCITS Fund of funds, completed its first year with performance that beat the average of its peer group in its Morningstar category of traditional funds (5.7% vs 5.1% through Aug 2018).</li> <li>• <b>Sustainable Discretionary Portfolio</b> – In November 2018, we launched a new low-cost, global, multi-asset class discretionary solution, where portfolio construction decisions are driven by prospective investment performance integrated with sustainability measures.</li> <li>• <b>FCA Innovate Green FinTech Challenge</b> – We were selected to participate in the FCA's programme with <i>"an impact investing ecosystem platform which aims to connect accelerators, fund managers, institutional investors, investor networks, and wealth managers."</i></li> <li>• <b>ESG Structured Products</b> – In partnership with STOXX, we launched a set of structured products based on Euro Stoxx 50 ESG to provide clients access to highly customised risk-reward solutions that incorporated ESG factors.</li> <li>• <b>Digital Investment Hub</b> – For our direct-to-investor online channel (Smart Investor) we built an impact site with educational content about the impact industry and specific impact themes, as well as highlighting the impact funds available.</li> </ul>

	<ul style="list-style-type: none"> <li>• <u>Behavioural Finance Research</u> – We published in depth research into individual (retail, affluent, high net-worth) investors and their motivations, attitudes and preferences around impact investing, in a white paper entitled, ‘Investor motivations for impact: A behavioural examination’.</li> </ul> <p><a href="http://home.barclays.intranet/sites/gis/investmentproducts/Pages/Impact-Investing.aspx">http://home.barclays.intranet/sites/gis/investmentproducts/Pages/Impact-Investing.aspx</a></p>
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<b>Start-up/SME/Growth</b>	<b>Product/Service Description</b>
<b>Business Banking Green Loans *</b>	<p>The Barclays Green Loan is a term lending product where the proceeds of financing are used for eligible green projects with the following qualifying environmental themes and activities:</p> <ul style="list-style-type: none"> <li>- Projects focused on renewable energy and energy efficiency</li> <li>- Agriculture, sustainable food and forestry</li> <li>- Green transport</li> <li>- Waste management</li> <li>- Sustainable water</li> <li>- Cross-sector activities such as carbon energy financing.</li> </ul> <p><a href="https://www.barclayscorporate.com/products-and-solutions/financing/corporate-lending/green-loans.html">https://www.barclayscorporate.com/products-and-solutions/financing/corporate-lending/green-loans.html</a></p>
<b>Green Agriculture Loan *</b>	<p>The Green Agriculture Loan is a Barclays green loan product specifically designed to help farmers to buy new environmentally friendly plants and equipment to save energy and to invest in renewable energy. Launched in March 2019, £20.3m has already been drawn from a £31m overall pipeline.</p>
<b>Unreasonable Impact</b>	<p>Co-founded in 2016 by Barclays and Unreasonable Group, Unreasonable Impact is the world’s first international network of accelerators dedicated to scaling growth-stage entrepreneurs solving some of our most pressing societal and environmental challenges.</p> <p>Run in the Americas, UK and Europe and Asia Pacific, this partnership is exploring the leading edges of technology for the benefit of society at large and connecting entrepreneurs to a global community of world-class mentors and industry specialists, including experts from across Barclays.</p> <p><a href="http://www.unreasonableimpact.com">www.unreasonableimpact.com</a></p>
<b>Green Eagle Labs</b>	<p>Our Green Eagle Labs foster a collaborative working environment, offering subsidised desk spaces to support local British expertise in the low-carbon and sustainable sectors. Residents can access a structured programme of knowledge development, professional networking, and mentors from successful green businesses and Barclays.</p> <p><a href="https://labs.uk.barclays/green-eagle-labs">https://labs.uk.barclays/green-eagle-labs</a></p>

<b>Corporate</b>	<b>Product/Service Description</b>
<b>Sustainability Linked Revolving Credit Facilities (RCF’S)</b>	<p>Sustainability Linked RCF’s are general corporate purpose revolving credit facilities increasingly available to large borrowers. What sets it apart is the inclusion of an additional interest margin adjustment on the RCF, which is linked to the sustainability performance of the company and allows for the RCF’s margin to increase or decrease depending on the company’s environmental, social and governance (ESG) performance (as assessed by an independent party) or performance versus agreed sustainability KPIs (e.g. greenhouse gas</p>

	<p>emissions). The margin discount is currently funded by lenders, as there is no capital reduction based on sustainability metrics at this point.</p> <p>The loans are documented using LMA documentation, in line with LMA guidance on Sustainability linked facilities. Barclays is an active member of the LMA's Green Loans working group.</p> <p><a href="https://www.lma.eu.com/application/files/8015/5307/4231/LMA_Sustainability_Linked_Loan_Principles.pdf">https://www.lma.eu.com/application/files/8015/5307/4231/LMA_Sustainability_Linked_Loan_Principles.pdf</a></p>
<b>Green Loans *</b>	<p>The Corporate Barclays Green Loan is the same product as provided to our Business Banking clients, but is a 'defined use of proceeds' term lending product for £3m and upwards. The funds must be used for purposes that fall within the Barclays Green Product Framework to qualify as a Green Loan. Flexible repayment structures, including capital repayment holidays, are also available.</p> <p><a href="https://www.barclayscorporate.com/solutions/corporate-banking-solutions/financing/corporate-lending/term-loan/">https://www.barclayscorporate.com/solutions/corporate-banking-solutions/financing/corporate-lending/term-loan/</a></p> <p>Syndicated Green Loans are documented using LMA documentation, in line with the LMA Green Loan Principles, which closely aligns to the ICMA Green Bond Principles.</p> <p><a href="https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf">https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf</a></p>
<b>Green Deposits *</b>	<p>The Green Deposit is an innovative market development, allowing clients to deposit their excess liquidity into a new product aligning to the Green agenda. The deposits are earmarked against the Green Bonds, and as above are able to be matched against a range of climate-related projects. These are currently available to our larger client-base.</p> <p><a href="https://www.barclayscorporate.com/solutions/corporate-banking-solutions/cash-management-solutions/liquidity-management/">https://www.barclayscorporate.com/solutions/corporate-banking-solutions/cash-management-solutions/liquidity-management/</a></p>
<b>Green Asset Finance *</b>	<p>Green Asset Finance supports the finance of a variety of green assets through lease purchase, finance and operating leases. Qualifying green assets cover a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction. Green Asset Finance requires that proceeds are used for the stated qualifying assets.</p> <p><a href="https://www.barclayscorporate.com/products-and-solutions/financing/asset-finance.html">https://www.barclayscorporate.com/products-and-solutions/financing/asset-finance.html</a></p>
<b>Green Innovation Finance *</b>	<p>In addition to the Green Loan, we have expanded our Innovation Finance capabilities to cover lending for all forms of innovation activities resulting in or aimed at significantly improving environmental protection, including new production processes, new products or services, and new management and business methods whose use or implementation is likely to prevent or substantially reduce the risks for the environment, pollution and other negative impacts of resources use, throughout the life cycle of related activities.</p> <p><a href="https://www.barclayscorporate.com/products-and-solutions/financing/corporate-lending/innovation_finance.html">https://www.barclayscorporate.com/products-and-solutions/financing/corporate-lending/innovation_finance.html</a></p>
<b>Green Trade Finance *</b>	<p>Green trade finance supports the green working capital needs of clients from procurement through to final sale of goods. By securing funding from the initial</p>

	<p>purchase until final payment is received, clients can trade with confidence and plan and manage their cash-flow more accurately.</p> <p><a href="https://www.barclayscorporate.com/products-and-solutions/trade-solutions/green-trade-loans.html">https://www.barclayscorporate.com/products-and-solutions/trade-solutions/green-trade-loans.html</a></p>
<b>Green Infrastructure &amp; Project Finance</b>	<p>The Barclays Infrastructure &amp; Project Finance team focuses on arranging senior debt solutions in the infrastructure and renewable energy sectors in the UK and Ireland. Since 1998, Barclays has completed circa £6bn of underwriting across more than 200 projects, financing over 4GW of energy capacity to date in the UK, Ireland and Continental Europe. Since 2005, Barclays has also successfully completed over 65 deals in the renewable energy sector across onshore and offshore wind, solar PV, biomass, land fill gas and energy from waste.</p> <p><a href="https://www.barclayscorporate.com/solutions/corporate-banking-solutions/financing/corporate-lending/infrastructure-and-project-finance/">https://www.barclayscorporate.com/solutions/corporate-banking-solutions/financing/corporate-lending/infrastructure-and-project-finance/</a></p>

<b>Capital Markets and Financing Solutions</b>	<b>Product/Service Description</b>
<b>Renewables and Alternative Energy (Advisory)</b>	<ul style="list-style-type: none"> <li>• Collaborative industry coverage – integrated effort across Power, Technology, Industrials and Natural Resources groups.</li> <li>• Dedicated Energy Structured Finance Group.</li> <li>• Active in Mergers &amp; Acquisitions, Equity and Debt Capital Markets, and private placements.</li> </ul>
<b>Green &amp; Sustainable Finance Capital Markets</b>	<ul style="list-style-type: none"> <li>• Active in underwriting Green and Sustainability Bond issuance across sectors and geographies including corporate, financial institutions and sovereigns.</li> <li>• Dedicated Global Head of Sustainable Capital Markets.</li> </ul>
<b>Environmental and Social Impact Banking</b>	<ul style="list-style-type: none"> <li>• Dedicated coverage group for Sustainability ventures and ESG focused private and public investors.</li> <li>• Advise clients on climate mitigation and adaptation.</li> </ul>

<b>Barclays Treasury</b>	<b>Product/Service Description</b>
<b>Green Bonds</b>	<p><u>Green Bond investment:</u> Barclays is a leading investor in green bonds, having committed to purchase up to £4bn worth of green bonds. We currently hold over £2.6bn.</p> <p><u>Green Bond issuance:</u> In November 2017 Barclays became the first UK bank to issue a green bond using UK assets, having successfully priced and issued a 0.625% \$500m green bond, under the <a href="#">Barclays Green Bond Framework</a>, released in September 2017. This was 4.5x oversubscribed.</p>

(\*) These products are aligned to the [Barclays Green Product Framework](#). Barclays has collaborated with Sustainalytics, a leading global provider of environmental, social and corporate governance research and ratings, to develop a custom impact eligibility framework that identifies projects and activities that have a positive environmental impact.

Consumer and client demand for Barclays' green financial products

As demonstrated above, Barclays has a wide range of green financial products for institutional, corporate, business and individual investors. Overall, as highlighted by UK Finance, the demand for these products is only at a nascent stage, but we can see the appetite growing.

For institutional investors, we have witnessed a growing development of separate ESG and Green portfolio mandates. However, the UK green bond market is still young and quite underdeveloped, which means that when bonds go to market, they are often over-subscribed due to growing demand and insufficient supply. This was true for Barclays when we issued our first green bond in November 2017, which was 4.5x oversubscribed. Since then, we have seen an overall growth of the global Green Bond market with issuance predicted to be around \$250bn this year, versus \$168bn last year. In 2019, Barclays also supported the inaugural Government of Ireland EUR3bn green bond which is projected to help upgrade energy efficiency of more than 30,000 homes, help build a new public transport system in Dublin, and improve waste water treatment.

For our corporate clients, we have also witnessed a strong growth in interest. In 2017 we had 40 meetings with corporate clients discussing green products. In 2018, this number was closer to 3,000 meetings where green deposits, asset finance and term lending were the most popular products. In 2019, we have already had ~2300 meetings YTD discussing green products and have seen the rise in popularity of sustainability-linked revolving credit facilities (where a client receives a small margin discount with outperformance on green metrics and a small margin increase if they underperform). As an example of how we have helped our corporate clients, in February 2019, Barclays helped Wyke Farms (largest UK independent producer of cheese) achieve its green ambitions to recycle all of their farm waste into energy through £3.5m of lending.

Looking at consumer demand, we have anecdotal evidence suggesting consumers are putting increasing pressure on businesses to become more environmentally friendly. However, many SME's often lack the resources and capital to make these investments as it is not always commercially viable to do so.

In addition, for impact investing for individual investors, we have passed the innovator stage, but are only into the early adopter phase. In 2015, 56% were at least moderately interested in exploring impact investing, but only 9% had made an investment. This increased to 15% in 2017. The good news is that once investors have made an impact investment, they are likely to do so again and to increase the size.

### *Barriers to delivering green finance & the importance of policymakers*

UK policymakers play an especially important role in promoting global cohesiveness for green finance policy and in helping to drive the consumer and client demand for green financial products. The launch of the Green Finance strategy is an important first step, but more needs to be done. The five biggest barriers currently preventing financial services firms from delivering green finance or investing in green assets are due to a lack of:

- 1) Risk and credit appetite** – To incentivise the uptake of green finance, there needs to be a financial incentive to do so. However, it is difficult for a regulated financial services firm to offer better margins/terms on a product or investment unless it can justify it based on the risk profile/risk weighting of the company/asset. Currently, the risk models used by banks are not well equipped to support the transition as the internal costs (especially in terms of capital treatment) are often punitive for doing so. Along the same lines, there is an issue around the collateral needed for green assets. For example, if a farmer wants to borrow £10m to build wind turbines, then they will need security from another asset, but this is often not viable as they will not have the necessary collateral.

One way that Government can help the issue is through the use of Government backed schemes that make these investments less risky and, therefore, easier to support from a credit risk perspective.

- 2) **Consumer and client demand** – As well as exploring tools that make it more commercially viable for financial services firms to supply green products, Government needs to first and foremost help to stimulate the consumer and industrial demand for the take-up or switch to the green products that are already available. This is needed to provide a steady pipeline for investable financing opportunities (e.g. energy efficient homes/buildings/facilities, low-emission transport, clean-energy technology, green technology that financing can be used to support). In doing so, Government needs to ensure to adopt a long-term and considered approach towards any incentive or subsidy scheme they put in place in order to avoid the risks around shorter-term policy (such as previous examples where short-term changes to low-carbon energy policy ended up reducing investor confidence and undermining the sector).
- 3) **Certainty around regulatory developments** – Building on the earlier point around the importance of long-term policy stability, the current uncertainty around the development of different regulations across geographies and regions makes investors highly reluctant to make any large investments in green projects (as they often tend to be longer term in nature). Government should therefore strive, to the best of its ability, to drive international regulatory certainty and harmonization. Government can accomplish this by being actively involved in global dialogues and by looking to be as transparent as possible in order to provide forward guidance on future policy and regulations (both domestically and internationally).
- 4) **Comparable data, metrics and definitions** – As highlighted by UK Finance, there are significant gaps in the climate risk and green finance frameworks that are needed in order for financial services firms to establish full climate risk management approaches. In terms of definitions of ‘green’, the UK must also recognise that work is already well underway at the European and international levels to define a cohesive taxonomy and Barclays believes that the Government should look to stay aligned with the EU taxonomy in particular, while also pushing for all jurisdictions (Europe, Asia, US, etc.) to work towards adopting a common approach in developing an international taxonomy. It is especially important that the taxonomy that is applied is monitored continuously for new developments, allows for flexibility in its implementation and prevents prescriptive categories that are likely to change rapidly as the market adapts over time.

On the product side, another key barrier to expanding products, such as our green mortgage and green bond, used to stem from a lack of access to EPC data to measure the energy efficiency of the underlying properties. As such, Barclays welcomes Government’s announcement that it will now be making this data available every six months, as stated in the newly issued Green Finance Strategy.

- 5) **Green finance awareness, knowledge and skills** – A barrier to green investments in particular is due to a lack of understanding of the available green products and a shortage of skills among financiers, investors, Government officials, industry professionals, people in management roles, etc. Government is aware of this issue and it is great to see the plan outlined in the Green Finance Strategy to set up a new body to help build the capacity around green finance across both the public and private sector. In addition, Government should also look to provide more awareness raising

campaigns to ensure retail customers are targeted as part of a drive to upskill the wider population as well.

## Conclusion

As the shift towards a low-carbon future intensifies, Barclays welcomes the opportunity to collaborate with the Government, Parliament and the wider policy making environment in order to help shape and progress this important goal. We fully recognise the potential for green finance to represent a flourishing industry for the UK, and we are dedicated to supporting that objective to the best of our ability.