# Barclays Response to Update to Green Finance Strategy: call for evidence

22 June 2022

Barclays is a universal consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management. With over 330 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. In March 2020, we announced our ambition to be a net zero bank by 2050, becoming one of the first banks to do so.

We welcome the opportunity to respond to the Department for Business, Energy & Industrial Strategy's (BEIS) Update to Green Finance Strategy: call for evidence.

## Executive Summary

We are supportive of the UK Government's leading green finance strategy. It is important to emphasise that alignment of the UK's financial services sector with sustainability goals can only happen as part of a whole of economy transition. This needs to recognise that banks' balance sheets are a reflection of the wider economy. Consequently, a full economy transition requires robust net zero and sustainability policies.

We consider that the UK has made a strong start on green finance by developing expertise in the investment ecosystem around key issues. The UK Government should build on this to consolidate a leading international position with continued Green Gilt issuance, supported by robust, easy-to-use, taxonomies and frameworks, and continuing to push at the boundaries of this kind of financing by leading in the development of social and nature focused taxonomies that are credible and scalable.

Financing net zero will depend on transparent and credible identification and allocation of risk. In practice, this will be delivered through science based transition plans for every economic sector, crowding in of finance, including through expanding the mandates of the UK Infrastructure Bank (UKIB) and British Business Bank (BBB), and the availability of investment projects.

The Government should also provide robust sector-by-sector policy trajectories on the path to net zero, especially in relation to greening the housing stock and boosting electric vehicles (EV) infrastructure. This will allow the whole economy, including the banking and finance sector, to better align with the UK's sustainability goals, and create the conditions for the financial system to enable well informed and accurately priced investment and borrowing decisions. A good example of this is the UK Government banning the sale of new combustion-engine vehicles by 2030, which has accelerated investment into electric vehicles.

In addition to the above, we believe that the market will not shift to net zero without Government intervention to ensure:

- Provision of decision-useful data (Energy Performance Certificates are an excellent example);
- Mandatory, globally interoperable, sustainability disclosures;
- Supported liquid markets;
- Direct funding to new technologies;
- Regulated products where necessary;
- Public debate and raised awareness amongst SMEs and retail customers;

- In specific instances, by sharing risks through vehicles such as the UKIB / BBB and similar mechanisms.

In collaboration with the Government, it is the responsibility of markets actors such as Barclays to contribute actively to the development of effective standards and data, support business through lending and business development advice, think creatively about informing and supporting homeowners to decarbonise their homes, foster appetite and expertise in investors, and to fund the transition.

*We have published extracts of our response to the 'BEIS Update to Green Finance Strategy – Call for Evidence' which we think will be of most relevance to our stakeholders*

## Capturing the opportunity

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

It is important to emphasise that alignment of the UK's financial services sector with sustainability goals can only happen as part of a whole of economy transition. This needs to recognise that banks' balance sheets are a reflection of the wider economy. Consequently, a full economy transition requires robust net zero and sustainability policies.

The establishment of the Transition Plan Taskforce by HM Treasury is a welcome step to establish the UK as a leading global centre for green finance. Requirements for companies and financial institutions to deliver science-based transition plans to a strict timetable to demonstrate how business models can be re-engineered, particularly in hard-to-abate sectors, are key. Crucially we consider that these rules should apply to both listed and private companies on a proportionate basis akin to the roll out of Task Force on Climate-Related Financial Disclosures (TCFD) across the UK.

Secondly, the UK requires a UK Green Taxonomy that is simple to use and is accessible for all market participants. A robust, science-based taxonomy will establish a common, clear and detailed definition of sustainable economic activities. We support wide application of the UK Green Taxonomy to both financial services firms and corporates / businesses operating in the 'real economy'. This will encourage consistent data and allow investors, businesses and consumers to make sustainable financial decisions and accelerate the transition to net zero. Further, a comprehensive taxonomy will also help mitigate the risk of greenwashing.

We also consider that the UK should drive momentum to establish principles for the interoperability of taxonomies, driving convergence where possible to avoid fragmentation. An example of interoperability would be to support the International Sustainability Standards Board (ISSB) in its efforts to create a uniform and mandatory approach to disclosure, which may in the future be used to indicate alignment against different taxonomies. To this end, we welcome the UK Government signalling that it will use the ISSB as a "core component" of the Sustainability Disclosure Regulation's framework, and the "backbone" of corporate reporting.[1]

Finally, a leading global centre for green finance should also provide technical market support to help develop green finance. Our responses to Questions 7 and 9 go into more detail in how targeted Government support can incentivise investing and protect consumers looking to play their part in the net zero transition. This approach can be tested and subsequently rolled out to other sectors. In any case, the UK Government should continue to lead from the front and demonstrate the seriousness of the centre by committing to, for instance, further UK Green Gilts and developing compliance / voluntary carbon markets (see our responses to Questions 4 and 22).

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

Barclays is supportive of the UK Government's world leading green finance regulatory framework. However, we note that key components of the UK's green finance regulatory framework have yet to be embedded – most importantly the UK Green Taxonomy, Transition Plans, Sustainability Disclosure Requirements (SDR), and the Financial Conduct Authority's (FCA) investment labels regime.

As mentioned in Question 1, we welcome the Government's leadership in pursuing a globally coherent green finance regulatory framework. One example is through the UK's support for the establishment of the IFRS' International Sustainability Standards Board (ISSB). We believe that a robust framework that aligns with international best practice is key. We also welcome the Government and regulators' objectives to establish an integrated framework of sustainability disclosure requirements built on TCFD reporting.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf

From an investor perspective, we support the objectives of the FCA's proposed sustainable investment labelling system.[2] We believe that if designed, implemented and governed in the appropriate way, the regime can build trust and transparency in the market. However, it is important to ensure the appropriate sequencing and timing of disclosures, as well as ensuring that the rules allow enough room for innovation and growth of this important market. We would also note that an overly prescriptive approach of the labelling regime could place UK funds in an unfair position in comparison to EU funds marketing into the UK. This could result in UK investors having less choice or, conversely, a market that is not big enough to be competitive in a global economy.

It is well understood that a lack of common definitions makes it difficult for companies and investors to clearly understand the environmental impact of their decisions and can lead to consumer harms like greenwashing. To this end, we welcome the upcoming UK Green Taxonomy that is designed to address some of these concerns and believe that the UK Government should take into account market feedback on some of the complexities that have inhibited financial flows following the phased implementation of the EU Taxonomy. Some of these include:

- An overly prescriptive Do No Significant Harm (DNSH) approach, compounded by a lack of available granular data, means that it is very challenging to achieve Taxonomy alignment. To resolve this, we would favour a principles based DNSH approach.
- The introduction of the Green Asset Ratio (GAR) through Article 8 of the EU Taxonomy Regulation poses both operational challenges for banks to report and is potentially misleading for investors. This is primarily because the ratio (the denominator) includes asset classes that will never be taxonomy aligned. In essence, there is a mismatch between the numerator and denominator. Therefore, the resulting reportable metrics are primarily driven by the operating model of the bank, rather than accurately highlighting taxonomy aligned financing activities. To avoid this, we recommend that the Government ensures that the reporting metrics are consistent and include transition activities. This would also help support the UK Government's Energy Security Strategy.

Beyond the forthcoming UK Green Taxonomy, we would suggest that the updated Green Finance Strategy is an opportunity to define additional key terms for the market. For instance, further clarifications would be valuable when it comes to defining 'transition financing' and 'greening finance'. It would therefore be helpful if the Government could delineate, perhaps in a glossary, the critical components of the UK's Green Finance Strategy. This would help address some of the current subjectivity within the market – and allow for the industry to focus its solutions to the right areas.

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

Delivering green finance requires a blend of skills, depth of market and innovative spirit that is synonymous with UK banking and financial services. The UK is a leading global financial centre, in Europe and globally, with access to a highly skilled workforce and world-class professional services.

Attracting private finance into the real economy, whether from UK-based or international firms, requires a strong skills base in the target sectors. There is a risk in some key transition sectors in the UK that skills bases are insufficient to support investment or lending with confidence. We are strongly supportive of a net zero-aligned industrial strategy, building on the Government's Prime Minister's ten-point plan, that will crowd in skills in the areas that most need private investment and lending. This should be accompanied by a Visa regime that allows for the inward flow of necessary talent.

**Question 4. What are the UK's comparative strengths and weaknesses in its green finance offering compared to other international financial centres?**

The UK is ideally positioned to create a "best in class" platform to highlight, support and promote the topic of Green / ESG Finance and support the development of a strong market for green finance

[2] https://www.fca.org.uk/publication/discussion/dp21-4.pdf

products within the UK issuer community and GBP-denominated markets. Meaningful and dedicated Green / ESG investments in debt (and equity should follow) in the UK can promote other market participants to focus their issuance and trading in this country too, as well as developing business at other industry bodies such as securities exchanges, legal expertise and Second Party Opinion providers. As has been seen across other jurisdictions, governments can (and have) taken a lead with their own bond issuance in setting standards, advertising suitable frameworks, and demonstrating the market demand for such assets and contributing to the development of the market. Furthermore, this has facilitated the growth of local investor expertise and with the provision of a liquid Green / ESG government benchmark, this is anticipated to result in the growth of additional specialised dedicated Green / ESG investors within the UK.

With respect to weaknesses, the UK needs policy clarity across the real economy, sector by sector, to ensure shared expectations and aligned objectives. In a wide variety of UK sectors, the net zero and wider sustainability policy trajectory remains vague, without clear milestones leading to full decarbonisation and uncertainty about which winners to back. The banking and finance sector alone cannot be responsible for fixing this absence of clarity, as it often lacks real-world opportunities in which to invest. Government policy clarity can help to crowd in industry actors. We welcome Government's commitment to supplement the Green Finance Strategy and Ten Point Plan with sector-by-sector net zero roadmaps, and are keen to work with policymakers to bring banking and finance expertise to develop them.

We are also concerned that as major jurisdictions are moving at different speeds, a risk of fragmentation and diverging rules may emerge. This is particularly concerning for banks such as Barclays with a global presence. Interoperability of regulatory frameworks is considered essential. To this end, we encourage the UK government to maintain lines of communications and cooperation with international partners and regulatory authorities in different jurisdictions and at the supra national level. The FCA's participation within the ISSB's jurisdictional working group is an excellent example of this.[3]

**Question 6. What areas for potential growth – for example emerging financial products and instruments – are there in green finance for the UK financial services sector?**

Across the market we consider that there are numerous areas for potential growth for the UK financial services sector with respect to green finance.

As an example, we believe that there is considerable potential for the UK Government to pursue sustainability-linked bonds (SLBs), or indeed other similar products. ICMA defines SLBs as "any type of bond instrument for which the financial and / or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability / ESG objectives."[4] With robust key performance indicators (KPIs), this is a product area that we believe the UK Government should seek to prioritise. We also consider that KPIs, through coupon ratchets / margin adjustments, will keep institutions accountable towards their sustainability targets. It is important that in addition to being "robust", KPIs are ambitious (e.g. aligned to the Paris Agreement) and are material to the business' core operations as per market best practices and ICMA's Sustainability-Linked Bond Principles.

We also see an opportunity for a growth in "social" lending. While there are currently limited market standards as to what constitutes social lending – in much the same way that the industry has asked for consistent and comparable criteria when it comes to green financing – social lending will grow as regulations emerge to address investor uncertainty. To take apprenticeship schemes as an example, it is a challenge to determine what the social impact of this is on communities as the outcome is qualitative rather than quantitative in scope. Nevertheless, social / sustainability bonds are another

[3] https://www.ifrs.org/news-and-events/news/2022/04/issb-establishes-working-group-to-enhance-compatibility-between-global-baseline-and-jurisdictional-initiatives/

[4] https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf

avenue through which the UK can positively contribute to the development of the capital markets and equally contribute to addressing social needs.

More broadly, emerging approaches in the circular economy may offer product opportunities in the future, and we share in Question 15 how clarifying guidance and requirements have assisted in spurring innovation and mobilising investment from the private sector into nature-based finance. Barclays is also strongly committed to transition finance, and the work of the Transition Plan Taskforce will help unlock capital flows towards companies that have a credible net zero pathway. Finally, we consider that green lending will continue to grow in the UK as more clarity comes from the UK Green Taxonomy. This will give borrowers, investors and lenders confidence that they are aligned with best practice. As referenced earlier in our response, we would emphasise that the Green Taxonomy should be simple to use and is accessible for all market participants.

## Financing the UK's energy security, climate and environmental objectives

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

The Government needs to provide a robust, clear and coherent policy framework across the real economy, sector by sector, to support the changes brought forward by the financial sector. Using the UK Real Estate sector as one example, proposals to improve the energy efficiency of rented and owner occupied homes have been subject to consultations, but a lack of clarity on timings for next steps has led to a number of market participants adopting a wait and see approach.

In certain cases, targeted financial incentives are required to support investing and start-ups in this nascent, but growing, space. This is particularly the case for green technologies that are unproven and there is hence a need to risk share to help them reach scale. To use a case study, contract for difference auctions have been very successful for offshore wind power, and by extension have helped to decarbonise a component of the UK's electricity market. To this end, we see a role for the UK Infrastructure Bank (UKIB) and the British Business Bank (BBB) here. Important new green technologies, which are necessary for the transition but will have payback periods that are long or uncertain, will need further Government support to lower risks and drive down costs. We share UK Finance's concern that the UKIB's current resources (£12bn in equity and debt capital and £10bn in guarantees), is too small in comparison to some of the opportunities it may be approached with and challenges it needs to resolve.

We consider that the UKIB and the BBB can maximise the potential of their financial resources by expanding their risk mandate to cover securitisations. This is where the UKIB / the BBB can provide guarantees for green projects such as retrofits that would otherwise not be funded due to a lack credit appetite within the market. The tranches in a securitised structure allows for the sharing of risk between Government and private capital in a way that generates a commercial return to the UKIB / the BBB. Additionally, as the UKIB / the BBB are not at risk for the full loan – this would only use a small proportion of their balance sheet versus the total size of the facility. This creates opportunities to crowd in private finance and, as an additional benefit, is balance sheet efficient for institutions such as the UKIB / the BBB which have different risk appetites and capital structures compared to banks.

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

We consider that at a high level the barriers to mobilisation of finance investment to support the UK's energy security, climate and environmental objectives are:

- A lack of policy clarity. As mentioned in our responses above, the UK needs policy clarity across the real economy, sector by sector, to ensure shared expectations and aligned objectives. In a wide variety of UK sectors, the net zero and wider sustainability policy trajectory remains vague, without clear milestones leading to full decarbonisation and uncertainty about which winners to back.

- Poor risk / return ratios. Many technological innovations and wider activities needed for the sustainable transition are currently unattractive to lenders due to poor risk / return ratios.
- Wider infrastructure challenges. A wide variety of sector-specific infrastructure challenges remain, which need to be addressed on a case-by-case basis. For example, although a highly skilled economy, the UK is encountering a skills shortage, for instance in the construction sector.
- Consumer inertia. A lack of confidence or action amongst consumers in wider society inhibits private investment from flowing into the conduits where it could have the most impact to change behaviour.

More specifically, across Barclays we have spent time thinking about the issue of retrofitting, recognising that it contributes towards 15% of the UK's greenhouse gas emissions[5], and that the Government has identified improving the energy efficiency of the UK housing stock as a key vehicle to achieve net zero by 2050. However, lenders cannot move the dial alone and we face several challenges that require Government support.

Firstly, a national decarbonisation roadmap for the UK's housing stock is necessary. There needs to be a reformed energy performance rating / measurement system (EPC) and an energy strategy that ensures investment flows to the technologies that are relevant for the UK's future energy mix. We would also welcome continued investment in measures to increase consumer confidence in this market.

Secondly, any home improvements are dependent upon customer take-up rates and a cultural shift in behaviour amongst the population. To address this, a wide scale education campaign is needed that joins-up issues across sectors. This should include increased visibility of energy use data to drive awareness of consumption. We see a role for lenders to support the Government in disseminating key messages by leveraging our touchpoints with our customers at times when retrofitting makes the most sense. For instance, when customers sell or are renovating their homes more generally.

Based on our research, we believe financial incentives will be the pivotal driver of motivation for home owners to take action and retrofit their homes to increase energy efficiency. The development of retrofitting incentives for mortgages customers has already begun with some lenders offering cash rewards for making green changes, combining nudges with the grain of human behaviour. We believe it would be timely to explore how to build on early successes and make these approaches more sustainable. As costs are one of the biggest barriers to action, we believe that Government could commit to further support and incentives for homeowners to make energy efficiency improvements (e.g. tiered stamp duty structure / a grant distributed to customers through lenders).

In conjunction with solving for demand side reform – the UK can support a financial system that leverages private investment by addressing existing supply-side issues. One example of this is a lack of central strategy for expanding the coverage of the electric vehicle charging network, which restricts large scale debt investment. Having discussed this with our clients, we believe that a form of availability based payment mechanism (i.e. where fee payments are made once the project is completed and ready to use) across regions of the UK would be required to stimulate investment. There is also a role here for the UKIB to share risk with lenders (see our response to Question 7). It is critical that this strategy also accounts for coverage in areas of low population densities.

Additionally, while we do not currently believe that supporting factors should be expanded, we note that from an international perspective there is an unlevel playing field whereby supporting factors are incorporated into non-UK jurisdictions. As an example, the EU infrastructure supporting factor CRR 501a (c.25% reduction in capital requirements for green / social infrastructure financing) has not been adopted within the UK, meaning that UK institutions may struggle to compete / support in these areas. We would welcome the opportunity to discuss with Government options to address this

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[5] https://www.carbonbrief.org/uk-homes-shockingly-unprepared-for-climate-change-says-ccc/#:~:text=Homes%20account%20for%20around%2015,UK's%20legally%20binding%20climate%20goals.

disparity to ensure that UK institutions can support green infrastructure investment on an equal footing.

Finally, there is a greater role for public sector research and universities in unlocking private investment. Funding towards research and development will undoubtedly boost innovation and develop technologies that are needed in the transition beyond 2030, such as carbon capture, waste management, and energy efficiency. To this end, expanding other UK grant schemes – such as Innovate UK – can link private and public sector partnerships to accelerate further investment.

### Financing transition activities

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

It would be helpful if the upcoming UK Green Taxonomy was as expansive as possible – covering a large proportion of the economy. As part of this, transition activities should be included within the Taxonomy. This would support the mobilisation of private investment into transition activities. The trajectory of eligibility of transition activities and clarity on grandfathering provisions should also pave the way for additional investment – so that investors are aware of the likely longevity of the technology / infrastructure until zero carbon alternatives are available.

### Developing natural capital markets

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

Clarifying guidance and requirements such as the Environment Act (2021) have assisted in spurring innovation and mobilising investment from the private sector. However, ongoing support and guidance alongside legislation is key. It is worth noting that these markets are voluntary and strengthened support and guidance alongside legislation is important to protect those choosing to participate. We consider that the mobilisation of private investment to natural capital requires clear definitions as to what is a nature-related investment / opportunity.

The UK can support by ensuring alignment with international definitions / markets, including alignment with approaches such as the Taskforce on Nature-related Financial Disclosures (TNFD), as well as to support coherence across reporting and disclosure requirements.

Support for nature-positive investments goes hand in hand with minimising the negative impacts of financing activities on nature. This includes through encouraging the understanding and application of nature-related risk considerations to investments. To ensure integrity of the market, it is important that nature and climate-positive investments also take into account a view of any broader potential environmental and social impacts.

**Question 16. How can the UK Government best assess the progress and development of a natural capital investment market?**

As per above, the industry would welcome clarity on definitions, encouraging disclosure on nature-related impacts and dependencies. This should be combined with continued support for the TNFD, as well as initiatives working to improve data availability and disclosure on nature-related impacts, dependencies and opportunities. Finally, integrity of the market is important, including by making sure that wider environmental and social considerations are incorporated.

### Ensuring broad access to green finance for local authorities, SMEs and retail customers

**Question 17. How can the UK financial sector support the delivery of the UK's climate and environmental objectives at the local level, whilst also benefitting local growth and communities?**

The UK financial sector is already working to contribute to the development and support of Green / ESG financing products (e.g. dedicated Green / ESG debt financing, mortgages, trade finance) in addition to promoting the topic of Green / ESG finance within the UK issuer community and GBP-denominated markets. As the call for evidence rightly contends, more opportunity does exist to accelerate these trends, including the alignment of the Green Finance / Climate objective with a just transition and the levelling up agenda.

To help develop our support to the delivery of the UK's climate and environmental objectives at the local level, we would recommend that the government's climate objectives in particular consider how to reduce emissions where they happen (recognising that emissions are distributed across the country), and how to assist communities affected by the transition. This will help correct the imbalance in some parts of the country, e.g. areas with a concentration of high emission industries, by transitioning existing industries, or creating new, viable activities to sustain jobs and attract financing. One example of this could be to deploy retrofitting of housing in specific areas with high concentrations of low EPC-rated housing stock and opportunities to upskill local staff. We reiterate that policy clarity is a necessary step for the banking and finance sector to be able to support these changes.

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

The UK banking and financial sector is at the forefront of supporting SMEs and retail customers with financing to align with climate and environmental objectives. Our research suggests that SMEs need credit products that are flexible and tailored for their particular needs / project. To this end, banks can provide these customers with a repayment vehicle to spread the cost of green technology and energy saving home improvements. Further measures include the development of specific green products with flexible features that could support green projects, such as repayment holidays or loans drawn in stages.

Banks can also support with creating networks of businesses to ensure businesses can learn from each other and can co-create to solve problems. For instance, Barclays' Eagle Labs programme has supported over 6,900 businesses and has seen members, programme participants and alumni raise over £1.9bn in external funding.[6] The financial sector can also influence other sectors / processes to accelerate the transition. One example of this is by supporting supply chain finance and / or supporting industry groups in innovating new financial processes required for new business models.

We are, however, concerned about the potential lack of awareness and understanding amongst SMEs and retail customers about the practical implications of the transition, and the potential consequences of failing to act in time. Similarly, there is a lack of knowledge amongst SMEs of the need to green their businesses, as well as the potential need to report on their emissions and climate exposure as part of supply chain due diligence for larger businesses. To assist with this, the financial sector can provide innovative tools to help SMEs calculate and track their Scope 3 emissions. Such a tool could be made easily available to all SMEs, like mortgage calculators, to help them understand their footprint and potential associated risks. To use an example, our investment into SaveMoneyCutCarbon seeks to address this.[7] Consumers could also benefit from a traceability tool that is able to source where their products come from / pass through. This increase in accountability and transparency would hold companies to account across the supply chain, in particular SMEs that are several steps removed from the end product.

We also believe that the financial sector has a key role to play in educating our clients. As a ubiquitous point of contact for most SMEs, the banking sector has been at the forefront of educating SMEs about their sustainability risks and opportunities. This includes creating and providing access of tools that will help SMEs manage and monitor their carbon emissions, as well as help to educate on the importance and benefits of reducing these emissions. It is important to note that we still see an important role for Government to inform and educate the public on these issues and highlight the real implications for individuals and small businesses.

[6] https://labs.uk.barclays/about

[7] https://home.barclays/news/press-releases/2021/11/barclays-and-savemoneycutcarbon-announce-collaboration-to-help-c/

**Question 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?**

Government policy will be crucial to facilitate broad access to green finance for local authorities, SMEs and retail customers. This is in addition to the overall need for clear sectoral policy to lay the path to net zero across the real economy, and to provide clarity for the financial sector.

The UK Government has a key role to play in disseminating necessary awareness and knowledge into the wider population to increase demand of green finance. As referenced in our response to Question 20, we are concerned about the potential lack of awareness and understanding amongst SMEs and retail customers about the practical implications of the transition, and the potential consequences of failing to act in time. As such, there is a need for the Government to inform and educate the public on these issues and highlight the real implications for individuals and small businesses, as well as communities at large. This should include focussed communications campaigns to highlight the need to consider how the UK's net zero strategy will impact their lives.

The Government also has a role mobilising its fiscal tools (through, for instance, the BBB and the UKIB), which should be used to promote green activities and help where commercial lenders struggle to serve / share the risks with the financial sector. With respect to SMEs, targeted incentives (such as those discussed in Question 9) can unlock underserved markets by facilitating financing to SMEs under terms that banks and other financial institutions do not currently provide.

It is important to note that there is currently limited data-based insight on what actions SMEs are taking to invest in the net zero transition. As this is a relatively incipient market, we would welcome a BEIS commission on the approach of SMEs across the economy towards the transition. In particular, lenders would welcome further data into i) in a given period, what has been the SME spend on reducing their carbon emissions and ii) in a given period, how much finance has been raised by SMEs with the purpose of investing in reducing carbon emissions. From this, an understanding on what this money has been spent on and the types of finance requested would help lenders tailor their solutions to the market and support SMEs to align with the UK's climate and environmental objectives.

We also see merit in the creation of a 'sustainability grid'. We know that SMEs are faced with a large volume of sustainability related regulatory / legislative initiatives, some of which may further support their access to green finance (e.g. demonstrating eligibility for the forthcoming UK Green Taxonomy). A grid would help unpack the complexity and focus efforts towards complying or preparing with the new obligations. This could leverage the FCA Regulatory Initiatives Grid and have the additional benefit of supporting the financial sector in having an appropriate level of oversight of new sustainability sector regulation and legislation that will impact SMEs – which would help banks determine whether there is a need to support clients and assess for any indirect impacts that may occur.

From a retail perspective, where households are unable to borrow or finance the retrofitting of their homes, the Government could build on the Energy Company Obligation (ECO) and consider a system of grants to support vulnerable and low income households (see further options in our response to Question 9).

## High integrity voluntary markets for carbon and other ecosystem services

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

The UK can lead the development of carbon markets to build on the welcome progress made at COP26 on Article 6 – both by working to put an effective price on carbon and to reallocate revenues – for example, by hypothecating revenues from the sale of carbon permits for investment in new technologies (e.g. Sustainable Aviation Fuel).

That being said, and consistent with our response in Question 1, UK national standard setting bodies should continue to ensure that any approach taken locally is consistent with global standardization efforts, such as those undertaken by the Integrity Council for Voluntary Carbon Markets (ICVCM). In this regard, we support the ICVCM in its work to increase market confidence in the quality of voluntary carbon credits and address market participants' concern related to environmental and reputational risks associated with trading voluntary carbon credits.

We support the work of the UK Voluntary Carbon Markets Forum (VCM) that will implement the framework recommended by the ICVCM, and thus ensure that UK-based firms and branches of global firms based in the UK possess critical tools in corporate emission reduction efforts. Providing legal certainty of the treatment of carbon credits under English law is instrumental to establishing the UK as a carbon-trading hub.

## Greening the financial system

**Question 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?**

Firstly, there is a need for the UK Government to fill data gaps. We provide more detail to this our response to Question 30.

Secondly, greening the financial system is dependent on having a pipeline of real economy sustainability activity into which to move lending and investment. Given the size of the environmental challenge and climate crisis, this needs to happen at an unprecedented scale and pace, and cannot be achieved solely through market forces. Government engagement is needed to set clear direction on a sector-by-sector basis, and to use policy and public spending levers to address key market failures. This should include:

- Roadmaps for key emitting sectors, setting out interim milestones for achievement of goals, and clarity on technological choices where appropriate. These roadmaps would help the industry navigate the transition landscape, setting out e.g. moments where fossil fuel-reliant technologies are fully phased out. A good example of this is the UK Government banning the sale of new combustion-engine vehicles by 2030, which has accelerated investment into electrical vehicles.
- Targeted use of public financing to crowd in private finance and / or drive down the costs of new technologies, drawing on existing processes and institutions (e.g. UK Infrastructure Bank, British Business Bank – see response to Question 7).
- Targeted policy interventions that help address specific barriers, for example the skills deficit in some new / rapidly growing sectors.

The Government should also support a public narrative that makes clear the role of transition finance and careful FS sector stewardship on the path to net zero and a sustainable / resilient future.

### Providing the market with the right data

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

The UK Government should be commended for having made EPC for the real estate sector widely available. It is a notable exception globally and is the kind of approach to data as a public good that helps the understanding of the issue. Such a "public good" approach should be generalised whenever possible (e.g. make electricity and gas consumption public for properties; make flood insurance claim data public; make flood projection data public etc.). An industry led standard capturing metrics could also include upfront embodied carbon, lifecycle embodied carbon, flood, heating, cooling, carbon offsetting and renewable energy.

To improve further on properties, it would useful to increase the frequency of EPC certification (e.g. mandate them after building work) and to increase the scope (e.g. mandate for all properties, not just those that are for sale or rent). It would be important as well to have information about the embodied emission of new build and improvement work (commercial as well as residential). It is also essential that the Government continues to make improvements to the EPC methodology to ensure that it reflects actual emissions.

Internationally, Government should continue to use its international leverage to advocate for and secure increased coherence of disclosure and risk management approaches, including taxonomies, across jurisdictions. The increasing divergence of sustainability-related risk reporting and management expectations is a significant burden on many firms — affecting those with multinational operations, as well as those whose investments / loan books or supply chains touch other countries. Government should continue to its strong backing to the work of the ISSB to build a single agreed baseline for reporting, and use other fora like the G20 and G7 to encourage convergence around that baseline.

Government should continue to recognise that corporate and financial sector reporting will improve over time, with some challenges likely to persist over the coming years due to data gaps. There will be a particular challenge for firms exposed to markets in which sustainability reporting is not yet widespread.

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

From a risk perspective, Scope 3 emissions data are important. This is because they give a sense of the overall risk a company may face in its supply chain (both upstream and downstream). However, to be useful, Scope 3 data should be broken down per activity type for companies that have a diversified business mode. For example, for a utility, data should split between electricity generation, electricity distribution, gas for heating etc.

In addition, Scope 3 emissions are usually required for companies to meet their net zero targets. In particular, for large companies, their Scope 3 emissions typically ensure that mid-market suppliers are also focused on their footprint. This provides important incentives for improvement and cooperation upstream, as well as product design and end use downstream.

## Leading internationally

**Question 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?**

We are encouraged by the Government's support for international initiatives such as the Convention on Biological Diversity (CBD) and the TNFD. With regards to the CBD's draft Global Biodiversity Framework, the UK Government should advocate for targets and requirements for businesses to be both meaningful and workable. In addition, to ensure a smooth and fair transition, a just transition approach should be integrated in both the low-carbon and nature-positive trajectories.

Financing for biodiversity and nature-based solutions is still embryonic with a clear role for blended finance approaches that leverage public, philanthropic and private capital to share risk and demonstrate the commercial viability and returns for commercial investors and lenders. The UK Government can encourage more blended finance approaches for biodiversity internationally, working within the multilateral development banks and development finance ecosystem. Options to accelerate public private partnerships for investing and lending in UK-based projects should also be explored with relevant stakeholders to identify potential sources of blended capital, barriers to current deployment, and measures to increase blended finance flows over time.