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Treasury Committee

Net zero and the Future of Green Finance

Thirteenth Report of Session 2019–21

Report, together with formal minutes relating to the report

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The Treasury Committee

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The Government has made bold claims that the economic recovery will be a green recovery. In order to achieve that, the Government needs to set out in its Net Zero Strategy who, at ministerial level, will be responsible for delivering net zero, coordinating the roles of different departments, and ensuring that the UK remains on track to meet its net zero target in a cost-effective way.

In the Net Zero Review final report, the Government should set out what mechanisms it will put in place to integrate the net zero target within departments' spending review commitments, and how departments will be held to account should they fail to meet their targets.

The Chancellor should publish the Net Zero Strategy as soon as possible and should set out, in conjunction with the Net Zero Review final report, the principles upon which the UK will fund its transition to net zero carbon emissions by 2050.

There are a number of different estimates of the cost of achieving net zero by 2050. However, the Government has not yet committed to its own cost estimates and should set these out as soon as possible. The Government should include in the Net Zero Review final report its own methodology on costs; and it should set out clearly where the uncertainties lie. The Treasury should also include a range of scenarios on how net zero might be achieved, and the associated cost for each scenario.

The Treasury's Net Zero Review final report should include clear sectoral pathways towards decarbonisation and should address the key policy decisions as to the future of high carbon industries. Particular attention should be given to the potential regional impact of those decisions and the Government should set out a framework and strategy for supporting those communities which will be most impacted by these changes. This is especially important given the Government's commitment to a Just Transition as part of the Paris Agreement.

Private finance

The Government has recognised that private finance will need to play a key part in funding the transition to net zero. If it is to do so, the Government will need to provide long-term certainty in climate-related policy and must ensure that consistent policy signals are sent to investors. We are encouraged that the Government acknowledged these needs in the 2021 Budget.

We welcome the announcement in the 2021 Budget of a timetable for the issuance of the UK's first green sovereign bond or 'green gilt'. However, the UK is lagging behind other countries in the issuance of these green bonds. This runs the risk of holding back the development of a private sterling green bond market. Although concerns about the potential for green bonds to be a more expensive form of debt for the Government seem to have dissipated to a degree, the Government should none the less set out its tolerance, when issuing such bonds, for them to be more expensive than other forms of Government debt.

The Treasury should, as part of its review of Solvency II, consider reforms that could improve the funding of sustainable green infrastructure while maintaining the financial stability of insurers.

In the proposed framework for the new UK Infrastructure Bank, the Chancellor should clarify its governance arrangements, how investment decisions will be made, and how it will ensure that it attracts sufficient private capital. In particular, it should clearly set out how the Bank will meet the Government's commitment to Net Zero. The Government should also set out how it will incorporate lessons learned from the former Green Investment Bank, and whether it intends that the UK Infrastructure Bank should be funded to offer a lending facility at a level similar to that offered by the European Investment Bank before the UK referendum on membership of the EU.

Consumer choice

There is a high level of inertia amongst consumers around defined contribution pension fund choice, with most remaining in the 'default' fund. The Treasury has been robust in its view that default funds should not be required to move to more green alternatives, but at the same time maintains that consumers should not have to switch out of the default to invest sustainably. The Government should resolve this apparent contradiction. The Treasury should report regularly on the proportion of pension holders in defined contribution pension schemes who remain in the default fund, and the extent to which those default funds are aligned with a path to Net Zero.

Financial products should be clearly labelled to allow consumers to assess the relative climate impacts of products and to make choices accordingly. However, allowing every firm to create its own consumer sustainability labels may lead to inconsistencies and consumer confusion. The Treasury and the Financial Conduct Authority should consult on the merits of making climate or carbon labels for consumer financial products mandatory, as a means to encourage innovation. The FCA should consult on how best to make such labels readily and widely understood.

We note the concerns expressed about indices, in that the most popular may be carbon-intensive, and those that purport to be green may have carbon-intensive constituents. The risk remains that many consumers are unaware of the carbon-intensity of the indices that their passive investments are tracking. The Treasury and regulators should therefore ensure that all indices (whether conventional or climate-friendly) clearly set out the overall carbon footprint of the assets included within indices.

On the concerns around the constituents of indices described as 'green', we note the requirements under the Benchmarks Regulation, which should be used to help consumers make better choices. However, it is clear that in some cases the labels or descriptions of 'green' or 'climate-related' indices do not necessarily match legitimate consumer expectations of what they would commonly be understood to mean. The Treasury and FCA should review the provisions in the legislative and regulatory framework and ensure that the labels and descriptions of indices accurately reflect their content, in line with consumer expectations.

The Government's Green Finance Strategy noted the need for innovation in green finance products and services, yet the evidence we have received suggests that the pace of innovation could be accelerated and that more could be done to encourage take-up. The Financial Conduct Authority should seriously consider undertaking further "green fintech challenges" to encourage innovation. The regulator should also set out how it will tackle remaining regulatory barriers which discourage innovative 'green' financial products from coming to market. The Government and the regulators should work more closely with the Green Finance Institute to bring innovative ideas which will benefit consumers to the market.

Mainstreaming Green Finance

The Prudential Regulation Authority and Financial Conduct Authority should move quickly to incorporate their revised remits to include climate change. We will continue to monitor their progress and ongoing approach to the risks arising from climate change.

We have heard differing evidence on whether there should be amendments to the capital regimes to promote net zero. In light of its new remit letter, the Bank of England must now explain its thinking, as to what measures it might consider appropriate for the capital regime to better accommodate the climate risk associated with different investments. It should set out its views on the options for amending the capital regimes to reflect its new remit, taking into account the potential interaction with the other aims of prudential policy.

The Government has moved from a voluntary to a mandatory approach for ensuring that firms make climate-related financial disclosures. But the process will be run to different timetables for different firms, across different regulators according to the Roadmap published by the Joint Government Regulator TCFD Taskforce. The Treasury, via the Taskforce, will need to play a key role in ensuring that pressure is maintained for a consistent and rapid implementation of these disclosures.

We also draw the Treasury's attention to evidence suggesting that the disclosure regime could be widened in scope, and that firms might usefully offer fuller disclosures.

A taxonomy is an important part of identifying what can be considered green investment, so the announcement of a UK taxonomy is welcome. The Treasury and regulators should work at speed to ensure that there is a clear timetable and legislative pathway to deliver a UK taxonomy ahead of COP26 in November 2021. The UK can utilise the EU's taxonomy but can exceed it when it will assist the UK's goals. The UK should seize the opportunity presented by COP26 to use its own work on a taxonomy to push for greater international convergence.

Introduction

The Government's decision to legislate for net zero

1. On 12 June 2019, the Rt Hon. Theresa May MP (then Prime Minister) announced that the UK would eradicate its net contribution to greenhouse gas emissions by 2050.[1] A statutory instrument[2] was laid before Parliament on the same day, seeking to amend the Climate Change Act 2008 to enshrine this target in legislation. The Government said that the UK was therefore the first G7 country to legislate for net zero emissions.[3]

2. On 2 July 2019, the Government published its *Green Finance Strategy*, which had two objectives:

- To align private sector financial flows with clean, environmentally sustainable and resilient growth, supported by Government action.
- To strengthen the competitiveness of the UK financial sector.[4]

3. This Report, which is concerned mainly with the development of Green Finance in the face of the Government's legislative Net Zero target, is published with two particular catalysts for action in mind. Firstly, in November 2021, the UK will host the 26th UN Climate Change Conference (COP 26), which will bring parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change.[5] Secondly, the Treasury has indicated that in 2022 there will be a "refresh" of the Green Finance Strategy.[6]

Our inquiry

4. The previous Treasury Committee launched an inquiry into the *Decarbonisation of the UK economy and green finance* in June 2019,[7] and it published terms of reference[8] seeking evidence on:

- the potential economic opportunity offered by decarbonisation,
- the Treasury's strategy in facilitating clean growth and its response to the Climate Change Committee's net-zero recommendation, and
- green finance.

The previous Committee received written evidence from interested parties for this first phase of the inquiry and held three oral evidence sessions.

1 UK Parliament, 'Government gives details on setting a UK net zero emissions target', accessed 11 February 2021
2 The Climate Change Act 2008 (2050 Target Amendment) Order 2019
3 UK Parliament, 'Government gives details on setting a UK net zero emissions target', accessed 11 February 2021
4 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, p 7
5 UK COP 26, 'UN Climate Change Conference UK 2021', accessed 19 February 2021
6 HM Treasury, A Roadmap towards mandatory climate-related disclosures, November 2020, Para 1.21
7 Treasury Select Committee, 'Committee launch inquiry into decarbonisation of the UK economy', accessed 11 February 2021
8 Treasury Select Committee, 'Decarbonisation of the UK economy and Green Finance terms of reference', accessed 11 February 2021

5. After the 2019 General Election and the establishment of the present Committee, we re-launched the inquiry[9] in July 2020 with revised terms of reference, in the light of the coronavirus pandemic and our work on the economic impact of coronavirus. We received further written evidence from a variety of interested parties, including members of the general public, trade associations, the finance industry and businesses. The further four oral evidence sessions of the second phase of this inquiry focused on a post-coronavirus green recovery, green infrastructure and the way in which private finance could help the Government meet its net zero emissions target.

6. We are grateful to all those who submitted written evidence and those who gave oral evidence, including business and financial services experts, economists, representatives from the Bank of England, Financial Conduct Authority, the Pensions Regulator, the Economic Secretary to the Treasury and the Exchequer Secretary to the Treasury. Transcripts of oral evidence and published written evidence can be found on our webpages.

7. We note also the valuable work of the Environmental Audit Committee in this field, most recently through its Third Report of this Session, *Growing back better: putting nature and net zero at the heart of the economic recovery.*[10]

9 Treasury Select Committee, 'Decarbonisation of the UK economy and green finance inquiry relaunched', accessed 11 February 2021

10 Environmental Audit Committee, Third Report of Session 2019–21, *Growing back better putting nature and net zero at the heart of the economic recovery*, HC 347

1 The economic opportunities and costs of net zero

Green finance: an economic opportunity

8. In the Green Finance Strategy, launched in July 2019, the Government argued that "leadership on green finance will enable the UK to maximise the economic opportunities of the global and domestic shifts to clean and resilient growth."[11]

9. The previous Committee heard evidence that decarbonising the economy could provide the UK with a substantial economic opportunity, both in terms of economic advantage that might be gained through new low carbon technologies, and globally, if the UK could establish the City of London as a leading centre for green finance and other green industries. We use the term "green finance" in this report to encompass the mobilisation of private finance for clean and resilient growth, the incorporation of climate and environmental factors within investment decisions, and the development of "green" financial products.[12]

10. Sagarika Chatterjee, Director of Climate Change, Principles for Responsible Investment,[13] told us that "[…] there is still a very strong opportunity for the UK and the City of London to lead on this. There are strong commercial and trading opportunities, particularly from the green finance side. The City of London, as well as, more broadly, Edinburgh and many other areas of the UK, should be the No. 1 place for green finance".[14]

11. Action to develop "green" finance in the UK could have consequences outside the UK, because of the international nature of the City. Positive Money, a not-for-profit research and campaigning organisation seeking to "make money and banking work for society",[15] told the previous Committee that while the UK is responsible for approximately 1% of global CO2 emissions, the City of London "hosts and finances companies which account for a minimum of around 15% of potential global CO2 emissions, and the financial carbon footprint of the UK is 100 times its own fossil fuel reserves".[16]

12. John Glen MP, Economic Secretary to the Treasury, confirmed that there is "a significant appetite for people to invest in sustainable financial products"[17] and that there were "new technologies that give us faster routes to that net zero goal".[18] Similarly, Kemi Badenoch MP, Exchequer Secretary to the Treasury, argued that there was also export potential: "If we can do this right and become world leaders in carbon capture storage, hydrogen and offshore wind, we can export these technologies […] There are benefits to making sure we get a march on and can be world leading in this space."[19]

11 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, p 6
12 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, p 7 - 11
13 Principles for Responsible Investment is an independent membership body for institutional investors supported by the United Nations
14 Oral evidence taken on 2 July 2019, HC 2233 (2017–19), Q14 [Sagarika Chatterjee]
15 Positive Money, 'Making money and banking work for society', accessed 8 April 2021
16 Positive Money, (DUE0063) para 4.3
17 Q253
18 Q253
19 Q253

Economic recovery: taking a "green" approach

13. The development of the UK as a centre for green finance is an opportunity which could be identified in advance and planned for. The coronavirus pandemic, on the other hand, was quite unforeseen; but it has in its way offered a quite different sort of opportunity, by forcing policymakers to think about how to build sustainability and "green" spending into planning for an economic recovery. This Report now looks at what the Government has already done in that respect, and what more it could do to co-ordinate that effort and to influence Government departments in planning their activities and spending so as to assist in meeting the net zero target.

'Building back greener' post coronavirus

14. While the Government's focus over the last year has been the coronavirus pandemic, it has also prioritised achieving economic recovery in line with the UK's net zero target. In June 2020, the Prime Minister committed the UK to "build back better, build back greener, build back faster".[20] Similarly, in his statement to the House on the Plan for Jobs in July 2020, the Chancellor announced that "this will be a green recovery, with concern for our environment at its heart, and as part of that, I am announcing today a new £2 billion green homes grant".[21] He went on to say that he was "releasing £1 billion of funding to improve the energy efficiency of public sector buildings, alongside a £50 million fund to pilot the right approach to decarbonise social housing". He argued that this was therefore a "£3 billion green jobs plan to save money, cut carbon and create jobs".[22]

15. The Prime Minister's speech to the Conservative Party Conference in October 2020 highlighted the Government's commitment to "the green economy, the green industrial revolution that in the next ten years will create hundreds of thousands if not millions of jobs" and announced plans for the UK to become a "world leader in low cost clean power generation".[23] In November 2020, the Prime Minister published a 'Ten Point Plan' for a green industrial revolution, which included a focus on "Innovation and finance".[24] The Chancellor of the Exchequer supported this commitment to a green industrial revolution with a number of 'green' spending commitments in the November 2020 joint Autumn Statement and Spending Review.[25]

16. We heard evidence which supported "green" spending measures as a means of supporting the UK's economic recovery. Professor Nick Robins, Professor in Practice for Sustainable Finance, Grantham Research Institute, London School of Economics, noted that:

> … through the Covid crisis, we have seen a greater recognition, particularly from the financial sector but also from the corporate sector and the world of policy, that the way out of this crisis is to move in a more accelerated fashion to the economy of the future, one which is net zero, resilient and

20 "PM: A New Deal for Britain", Prime Minister's Office, 10 Downing Street and The Rt Hon Boris Johnson MP, press release, 30 June 2020

21 HC Deb, 8 July 2020, col 976 [Commons Chamber]

22 HC Deb, 8 July 2020, col 976 [Commons Chamber]

23 The Conservative Party, 'Boris Johnson: Read the Prime Minister's Keynote Speech in full', accessed 12 February 2021

24 "Prime Minister Boris Johnson outlines his Ten Point Plan for a Green Industrial Revolution for 250,000 jobs", Prime Minister's Office, 10 Downing Street and The Rt Hon Boris Johnson MP, press release, 18 November 2020

25 HM Treasury, *Spending Review 2020,* CP 330, November 2020, para. 29

> more inclusive. We have a legal commitment to that in the UK, particularly to net zero. That would imply that we would want to see funds that are allocated to business in this crisis being done in a way that is consistent with net zero.[26]

17. Dr Emily Shuckburgh OBE, Director of Cambridge Zero, at the University of Cambridge, told us that "the key question is whether it is a cost to the overall economy. There is plenty of evidence, looking at past investments, that green investments give you a really strong multiplier in exactly these circumstances."[27] Dr Shuckburgh further noted that green investments made good economic and fiscal sense because "[…] if we do not look at putting in place both the jobs and the infrastructure that are relevant to the future, we will be putting money into things that are stranded, in the sense of jobs or assets that do not have any future".[28]

18. We also heard evidence supporting the imposition of "green" conditions on the provision of recovery financing for businesses. Professor Robins told us that this could be done in two ways: either by looking at past performance and the carbon or pollution intensity of the business, or by linking to a company's commitment to net zero and social commitments, such as retraining of workers.[29]

19. However, when asked about conditionality, Chris Cummings, CEO of the Investment Association, was more cautionary. He told us that:

> We are trying to strike the right balance between making sure that the businesses we are investing in are responding to climate change, and setting a course for correction and improvement where necessary, without imposing costs on them, particularly at this time, that could be difficult and could make the difference between the long-term sustainability we want and too much short-term pain.[30]

20. The Government's main business lending programmes in the coronavirus crisis—Bounceback loans, Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS)—did not have "green" conditions attached to them. However, in its support to Celsa Steel (UK), Alok Sharma MP, then Secretary of State for Business, Energy and Industrial Strategy, told the House of Commons that the Government had agreed legally binding contractual conditions with Celsa on employment, climate change and tax.[31]

21. At Budget 2021, the Government announced a new "Recovery Loan Scheme" and set out how it would operate:[32]

> The Recovery Loan Scheme is to help businesses of any size access loans and other kinds of finance so they can recover after the pandemic and transition period.

26 Q61
27 Q63
28 Q63
29 Q61
30 Q64
31 Written Ministerial statement, 2 July 2020, HCWS332
32 HM Treasury and Department for Business, Energy & Industrial Strategy, 'Guidance: Recovery Loan Scheme', accessed 9 April 2021

> Up to £10 million is available per business. The actual amount offered and the terms are at the discretion of participating lenders.
>
> The government guarantees 80% of the finance to the lender. As the borrower, you are always 100% liable for the debt.
>
> The scheme is open until 31 December 2021, subject to review. Loans are available through a network of accredited lenders, listed on the British Business Bank's website.[33]

22. At present, the Recovery Loan Scheme does not appear to have any green conditionality attached to it. However, in its submission to our inquiry, Barclays noted that:

> …via the British Business Bank, the Government already has a number of schemes in place designed to stimulate wholesale lending post COVID-19, e.g. the ENABLE guarantee, CBILS and CLBILS. With relatively simple tweaks, these schemes can be adapted to focus on net zero blended finance solutions. As a significant number of businesses focus on bridging their short-term needs through the COVID-19 pandemic, now is an ideal time for a focused, clear and green COVID-19 recovery program to marry up with the closing of the CLBILS/CBILS window in September.[34]

23. **Although the Government has emphasised the need for a "green" recovery, we note it has not, except in limited circumstances, imposed green conditionality on the support it has provided during the coronavirus pandemic. Whilst it is clear that support schemes were required to be provided without delay the Treasury should set out why it did not include green conditionality for the Recovery Loan Scheme announced in the 2021 Budget.**

Government decision making and the Net Zero Review

24. In November 2019, the Treasury launched its Net Zero Review,[35] which will consider how the transition to net zero will be funded and will assess options for where the costs will fall. The terms of reference set out what this will involve:

- Analysing the range of choices for how households, businesses and the taxpayer could contribute towards different elements of the transition to net zero.
- Identifying mechanisms to create an equitable balance of contributions.
- Maximising opportunities for economic growth as we transition to a green economy
- Evaluating the trade-offs between cost, competitiveness, effects on consumers and impacts on the taxpayer.

25. An interim Net Zero Review report was published in December 2020, which sets out the analysis undertaken so far, including on uncertainty of cost, policy levers, and

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33 HM Treasury and Department for Business, Energy & Industrial Strategy, 'Guidance: Recovery Loan Scheme', accessed 9 April 2021

34 Barclays (DEC0052) p 2

35 HM Treasury, 'Net Zero Review terms of reference,' accessed 12 February 2021

household exposure, and seeks feedback ahead of the final report.[36] The final report, which will build on the interim report and which will be published in spring 2021, will look at:

- Innovation and growth: How the government can reduce policy uncertainty to encourage innovation, technological development and investment. It will look at areas where the UK might have comparative advantage and consider how to maximise the economic benefits.

- Competitiveness: The scope for addressing the risks of carbon leakage and competitiveness that may arise from the transition to net zero.

- Household impacts: More detailed analysis of the implications for households from the decarbonisation of transport, buildings and power and options for managing any adverse impacts, as well as the trade-offs the government may face.

- Embedding the findings: How HM Treasury could incorporate climate considerations into spending reviews and fiscal events and how to embed the principles of the Net Zero Review into policy making across government.[37]

26. In 2019, the Treasury also commissioned the Dasgupta review on the Economics of Biodiversity, to assess the economic benefits of biodiversity globally; the economic costs and risks of biodiversity loss; and to identify a range of actions to enhance biodiversity and deliver economic prosperity.[38] The review's final report, published in February 2021, covers the impact of human economic growth and development on nature. One of the report's main conclusions is that nature's importance is not reflected in market prices, which has led to underinvestment in the world's natural assets. The report recommended, amongst other things:

- Changing measures of economic success to guide policymakers on a more sustainable path, including a measure of inclusive wealth which includes natural assets; and introducing natural capital into national accounting systems to improve decision-making; and

- Ensuring that the financial system channels investment into economic activities that enhance the stock of natural assets.[39]

27. Separate to the Net Zero Review final report, the Government has also committed to providing a Net Zero Strategy[40] which it says "will set out the Government's vision for transitioning to a net zero economy, making the most of new growth and employment opportunities across the UK".[41]

36 HM Treasury, Net Zero Review: Interim report, December 2020, p.3–5
37 HM Treasury, Net Zero Review: Interim report, December 2020, p 5–6
38 HM Treasury, 'Collection The Economics of Biodiversity: The Dasgupta Review', accessed 17 March 2021
39 HM Treasury, The Economics of Biodiversity: The Dasgupta Review Headline Messages, February 2021, p 4
40 HM Treasury, Net Zero Review interim report, December 2020, para 1.22
41 HM Government, The Government Response to the Committee on Climate Change's 2020 Progress Report to Parliament, October 2020, p 6

Co-ordination of Government effort

28. We heard that achieving net zero by 2050 would require the Government to conduct joined-up and coherent decision and policy-making, with an important role to be played by HM Treasury. Baroness Bryony Worthington, environmental campaigner and Crossbench Life peer, told us that an integrated approach to decarbonising was necessary. She told us:

> The quality of our policies is imperative and the Treasury plays a central role in that, in ensuring we join up the parts of Government. […] we still spend a lot of money on certain sectors of the economy, including transport. We need to see an integrated strategy of transport infrastructure that hits multiple objectives: clean air, no greenhouse gases, and investment into our industries with sustaining jobs.[42]

She noted though that "some of the lack of joined-up thinking is within Departments. It is not just between Departments and the Treasury."[43]

29. Lord Turner of Ecchinswell, Chairman of the Energy Transitions Commission, also emphasised the important role of the Treasury, saying that "Treasury is in charge of taxes and Treasury is in charge of public expenditure. Although there are many other tools of policy required to build a zero-carbon economy, what the tax regime is and what the public expenditure regime is are crucially important, so that needs to be integrated with the overall strategy."[44]

30. **The Government has made bold claims that the economic recovery will be a green recovery. In order to achieve that, the Government needs to set out in its Net Zero Strategy who, at ministerial level, will be responsible for delivering net zero, coordinating the roles of different departments, and ensuring that the UK remains on track to meet its net zero target in a cost-effective way.**

Spending reviews

31. We received evidence that the Government's net zero target needs to be integrated into the Government's spending decisions. Written evidence from the World Wildlife Foundation (WWF) proposed that the Treasury implement a 'net zero test' for spending decisions, including at spending reviews and annual budgets. WWF also proposed a Fiscal Resilience Rule as part of the Treasury's fiscal framework review, which would "guide the decision-making process for the Comprehensive Spending Review", and ensure "that all spending will be aligned with building the UK's economic resilience".[45] WWF proposed that the rule would encourage fiscal policy to address future risks to the UK economy, including climate change.

32. The UK operates a system of carbon budgets: legally binding caps on greenhouse emissions over a five-year period.[46] Shortly after carbon budgets were introduced under the 2008 Climate Change Act, Baroness Worthington wrote in the Guardian that:

42 Q2
43 Q5
44 Q3
45 World Wildlife Foundation (DEC0054) pp 1, 4, para 30
46 Climate Change Committee, 'Advice on reducing the UK's emissions', accessed 9 April 2021

> The principle behind carbon budgeting is simply that emissions must stay within a pre-determined limit or compensating actions, such as payment for emission reductions elsewhere, must be taken. This was meant to engender the feeling that every tonne counts, since allowing an emission to take place creates a liability against the budget, whereas, investing in emissions savings effectively creates an asset.[47]

However, Baroness Worthington told us that in the implementation of carbon budgets "one element that never really got implemented was that, if we are facing a deficit, as in we are not meeting our targets, there is a potential monetary value to that […]".[48] Baroness Worthington explained that "the point is getting the Treasury's minds to think about this in terms of liabilities, as in if we do not meet our targets we are creating a liability, and assets, as in investments now that decrease that liability over time."[49]

33. Kemi Badenoch MP, Exchequer Secretary to the Treasury, told us that it was her intention to hold departments to account for their net zero spending: "We cannot have a plan for net zero without Departments being fully engaged. It is a strategic priority […] All of the various Departments need to take account of which actions help us reduce emissions. This will be important to consider in the spending review. It will be an important part of wider fiscal strategy."[50]

34. It remains unclear to us, however, what mechanisms are in place within the spending review process to provide incentives to departments to design their activity and spending so as to meet the Government's net zero target; nor was it clear to us what the consequences would be for departments that did not do so.

35. **In the Net Zero Review final report, the Government should set out what mechanisms it will put in place to integrate the net zero target within departments' spending review commitments, and how departments will be held to account should they fail to meet their targets.**

Uncertainty of costs

36. While a range of different estimates of the cost of achieving net zero have been produced, the overall cost remains uncertain. In June 2019, it was reported that the Rt Hon. Philip Hammond MP, then Chancellor, had suggested that the cost of net zero would reach £1 trillion, and that analysis by the Department of Business, Energy and Industrial Strategy had estimated the cost at £70 billion per year.[51]

37. We heard from Nick Mohlo, Director of Aldersgate Group, that:

> it is difficult to comment on the precise figure because of the uncertainty of looking 30 years out. There are obviously quite big uncertainties around what the cost of finance would be, which would have a big bearing on the overall cost.[52]

47 The dawn of carbon budgeting: now every tonne counts", The Guardian, 14 July 2009
48 Q28
49 Q28
50 Q275
51 "UK net zero emissions target will 'cost more than £1tn", The Financial Times, 5 June 2019
52 Q6

Mr Mohlo added that his understanding of the Climate Change Committee's analysis was that the UK "would be looking at an actual resource cost of 1% to 2% of GDP to get to net zero". He explained that while there would be an increase in cost for some sectors, such as low-carbon heating, costs would fall in other areas of the economy, such as transport, where the Climate Change Committee estimated an annual reduction in cost of around £5 billion.[53]

38. Lord Turner of Ecchinswell told us that "it is not completely absurd" that the cost to achieve net zero by 2050 might be £1 trillion, but he noted that "by setting that figure up, you are making people think, "I have to find £1 trillion in the Budget to pay for that".[54] In his view, the cost would be apportioned across the time period "at the end of which, by 2050, people might have to accept being 1.5% worse off than they otherwise would be, which if we are growing our economy at 1.75%, means that they will reach, in December 2050, the living standard that they would otherwise have reached in February 2050".[55]

39. We also received written evidence from the Global Warming Policy Foundation which set out concerns about the Government's projected reliance on off-shore wind and its associated costs, and particularly that "no official costings of the net zero project have been published".[56] The Global Warming Policy Foundation called for the Treasury "to prepare and publish a detailed and publicly accessible costing of the project"[57] and noted that the Foundation's own calculations indicated costs approaching £4 trillion, or around £150,000 per household.

40. The Climate Change Committee now estimates in its Sixth Carbon Budget published in December 2020 that the annualised resource cost will be less than 1% of GDP per annum until 2050 but that this would not "necessarily reduce GDP by an equivalent amount", as modelling suggested that the level of UK GDP "would be around 2% higher than it would have been by 2035 as resources are redirected from fossil fuel imports to UK investment".[58] The Sixth Carbon Budget outlines three possible scenarios which reflect uncertainties over "how far people will change their behaviours, how quickly technology will develop and the balance between options where credible alternatives exist".[59]

41. The Treasury recognised the uncertainty of cost estimates in its Net Zero Review interim report, published in December 2020:

> … [the] amount of investment required to reach net zero and the consequential impacts on operating costs are difficult to estimate. They are affected by a range of factors, including the precise path of transition, changes in behaviour and the rate at which technology costs fall and efficiency gains made, all of which are subject to significant uncertainty.[60]

42. We received evidence on the difficulties of economic modelling and of estimating the costs. When asked whether the Treasury's economic modelling facilitates the effective funding of environmental policies, Chris Stark, Chief Executive of the Committee on

53 Q6
54 Q8
55 Q8
56 Global Warming Policy Foundation (DEC0009) pp 1–2
57 Global Warming Policy Foundation (DEC0009) p 2
58 Climate Change Committee, The Sixth Carbon Budget The UK's path to Net Zero, (December 2020), p 21
59 Climate Change Committee, The Sixth Carbon Budget The UK's path to Net Zero, (December 2020), p 24
60 HM Treasury, Net Zero Review interim report, December 2020, p 4

Climate Change, told the previous Committee that "the Treasury has several ways of modelling the economy. Some of those models are extremely appropriate and some are not." He noted that the Treasury had considered net zero in recent years as a "spending pressure"; but in his view, this was not the most appropriate way to look at the issue, as the policies needed to get the UK to net zero were likely to be long-term. He argued that "if you view the policies that are necessary to get us to net zero in three or four-yearly periods as spending pressures, it is going to be extremely difficult to consistently make the arguments for those policies to be in place".[61] He said that the Treasury needed "to lift its horizons slightly".[62]

43. Professor Nick Robins, Professor in Practice of Sustainable Finance at the London School of Economics, was critical of current modelling of both costs and benefits, and told the previous Committee:

> […] the current economic models, potentially including the Treasury's, really underestimate the scale of the challenge around climate change in two profound ways. First, they underestimate the costs, because often they only price things that are measurable and we know that many of these things are hard to measure. Secondly, they have consistently underestimated the benefits of an innovation-led process of growth. […] that leads to unnecessary caution, both in viewing the challenge of climate change as smaller than it is and in downsizing the potential opportunity for the wider economy.[63]

44. We raised uncertainties about costs with Ministers. The Exchequer Secretary for the Treasury, Kemi Badenoch MP, recognised the inherent tension between achieving the UK's net zero goal by 2050, and ensuring that it was achieved in a cost-effective way, saying that "the Government's priority is that we do this in a way that is sustainable and not in a way that loses people their jobs or their livelihoods".[64] She also told us that the Treasury was still assessing where the costs for achieving net zero would lie, but she did say that "between businesses, taxpayers, and consumers, it is about making sure that the balance is fair".[65] When asked about the costs of not taking action, Ms Badenoch told us that while she recognised that the physical impact of climate change required action, "we have not got to a point where we have been putting a figure on it. That is something that we will be looking to do very soon in the future".[66]

45. While Ms Badenoch committed to providing the methodology around the calculation of cost estimates of the transition to net zero, she noted that "I am not sure whether that is something that would be in the review itself. It would be quite difficult. I think we can provide in other forums ways of explaining the methodology".[67] However, Ms Badenoch committed to going "as far as we possibly can to show the working and be as transparent as we possibly can",[68] acknowledging that the "consequences could be catastrophic if we do not accurately estimate what the costs are going to be".[69]

61 Oral evidence taken on 2 July 2019, HC (2017–19) 2233, Q12 [Mr Chris Stark]
62 Oral evidence taken on 2 July 2019, HC (2017–19) 2233, Q12, [Mr Chris Stark]
63 Oral evidence taken on 2 July 2019, HC (2017–19) 2233, Q12, [Professor Nick Robins]
64 Q247
65 Q248
66 Q254
67 Q266
68 Q266
69 Q267

46. ***The Chancellor should publish the Net Zero Strategy as soon as possible and should set out, in conjunction with the Net Zero Review final report, the principles upon which the UK will fund its transition to net zero carbon emissions by 2050.***

47. ***There are a number of different estimates of the cost of achieving net zero by 2050. However, the Government has not yet committed to its own cost estimates and should set these out as soon as possible. The Government should include in the Net Zero Review final report its own methodology on costs; and it should set out clearly where the uncertainties lie. The Treasury should also include a range of scenarios on how net zero might be achieved, and the associated cost for each scenario.***

Regional impact of transition to net zero on high carbon industries

48. The 2015 Paris Agreement, to which the UK is a signatory, states that signatories would "tak[e] into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities".[70] This was followed at COP24 in 2018, when the then Prime Minister signed the Solidarity and Just Transition Declaration Silesia, which reaffirmed the "imperatives of a just transition of the workforce and the creation of decent work and quality jobs" and recognised that "the circumstances of economic sectors, cities and regions that are most likely to be affected by the transition vary from country to country".[71]

49. The Government's Net Zero Review interim report, published in December 2020, recognised the likely differing regional impact of a transition, observing that it would "lead to significant changes in the structure of the economy" and that these changes would "have knock-on impacts on sectors, jobs and regions."[72] It acknowledged that "employment losses concentrated in high carbon sectors are possible if these sectors cannot adapt or absorb the costs of decarbonisation".[73]

50. Some of our witnesses expanded on this point. Professor Robins, Professor in Practice of Sustainable Finance, Grantham Research Institute at the London School of Economics, told us that:

> Just transition is already part of the Paris agreement. We can translate that commitment in a policy sense, for example, when we come forward with the national infrastructure strategy, when we think about the skills and retraining that is going to be required. In terms of the regional dimension, the transition is not going to happen equally across the country. The country is very differentiated between rural, post-industrial and urban.[74]

51. Dr Daniel Klier, Group Head of Sustainable Finance at HSBC, observed that financial institutions were now running scenarios on their lending exposures to identify which geographies and sectors were most affected. Dr Klier said that "We need to do the same for the UK economy, to identify exactly what we mean, which industries and which parts of the economy are affected, and then launch a cluster strategy for those. Investors, banks and the wider community here will be able to act only if we point fingers at where we have concerns".[75]

70 United Nations, Paris Agreement, (December 2015), p 2
71 COP 24 Katowice 2018, Solidarity and Just Transition Silesia Declaration, 2018
72 HM Treasury, Net Zero Review interim report, December 2020, para 2.27
73 HM Treasury, Net Zero Review interim report, December 2020, para 2.30
74 Q95
75 Q95

52. For the Government's part, Niva Thiruchelvam, Deputy Director, Head of Net Zero Review at the Enterprise and Growth Unit in HM Treasury, told us that "The Net Zero Review is looking specifically at climate change mitigation and the optimal path to get to net zero by 2050. As part of that, we are looking at distributional issues [...], and a just transition is very much part and parcel of that".[76]

53. ***The Treasury's Net Zero Review final report should include clear sectoral pathways towards decarbonisation and should address the key policy decisions as to the future of high carbon industries. Particular attention should be given to the potential regional impact of those decisions, and the Government should set out a framework and strategy for supporting those communities which will be most impacted by these changes. This is especially important given the Government's commitment to a Just Transition as part of the Paris Agreement.***

76 Q312

2 Green finance to support decarbonisation

The importance of utilising private finance

54. The Government's *Green Finance Strategy*, published in 2019, was clear that private finance would have an important role to play in achieving the decarbonisation of the UK by 2050.[77] It noted that:

> A strategy to green the financial system as a whole needs to be combined with specific actions to mobilise and accelerate flows of private finance into key clean growth and environmental sectors at home and abroad.[78]

The 2021 Budget reinforced that view, noting that the Government expects the private sector to provide the majority of investment needed to achieve net zero.[79]

55. The Government has acknowledged that the transition to net zero will require significant private finance. Witnesses endorsed this view,[80] and we heard that the industry should be able to provide that finance.[81] This Report now considers what will be needed to ensure that provision is as smooth and effective as possible, including:

- Long term policy certainty for investors;
- Greening central banking;
- Facilitating private investment through: green sovereign bonds; long term asset funds; proposed reforms to Solvency II; and the new UK infrastructure bank.

Long term policy certainty for investors

56. It has been suggested that in the past, Government policies have changed frequently, deterring low-carbon investment. Nick Mohlo, Executive Director of Aldersgate Group, a membership organisation promoting a competitive and environmentally sustainable economy, told us that:

> If you go back to some of the policy developments between 2010 and 2016, we saw a fairly high level of uncertainty across low-carbon investments. The levy control framework, which was the overall pot of funding allocated to renewable energy funding, was delayed on multiple occasions. The fourth carbon budget had been reviewed quite prematurely. The zero-carbon-homes requirement was cancelled in 2015, and that had very negative knock-on impacts on the feeling of investment confidence, but also on the work of other Government Departments that had put a considerable amount of time into developing those policies in co-ordination with business.[82]

77 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, pp 2, 9
78 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, p 9
79 HM Treasury, *Build Back Better: our plan for growth*, CP 401, March 2021, p 91
80 Oral evidence taken on 2 July 2019, HC (2017–19) 2233, Q14, [Sagarika Chatterjee] ; Q101
81 Q101 [Dr Daniel Klier], Q85 [Chris Cummings]
82 Q4

Mr Mohlo added that more of the off-shore wind infrastructure supply chain could have been based in Britain had it not been for that uncertainty. He told us that "a lot of the investment uncertainty of the time definitely had some negative impact on their perception of the UK as an investable market and it resulted in a smaller number of supply chain investments than we would otherwise have seen."[83]

57. Chris Cummings, Chief Executive Officer of the Investment Association, also emphasised the importance of policy certainty to attract investment, adding:

> As the investment management industry, the one thing we love to invest in is infrastructure: long-term projects with known investment horizons. It is exactly the type of thing we get excited about. Successive Governments, unfortunately, have changed the policy direction, rules, incentives and so on, which makes it much harder for UK pension funds to invest in infrastructure.[84]

Mr Cummings further noted that "Policy certainty underpins all of this, making sure that Government are thinking long term, especially when thinking about green infrastructure and green investment."[85]

58. The Government announced in Budget 2021 that the Treasury's Net Zero Review is looking at how the UK Government can reduce policy uncertainty in order to encourage investment, alongside innovation and technological development.[86]

59. **The Government has recognised that private finance will need to play a key part in funding the transition to net zero. If it is to do so, the Government will need to provide long-term certainty in climate-related policy and must ensure that consistent policy signals are sent to investors. We are encouraged that the Government acknowledged these needs in the 2021 Budget.**

Green gilts

60. At the November 2020 Spending Review, the Chancellor of the Exchequer announced that the UK would issue its first green sovereign bond or 'green gilt'.[87] Green sovereign bonds can be defined as debt securities issued by governments where the proceeds raised are used to finance clearly defined projects which have environmental benefits.[88] Following this commitment, the Treasury noted at Budget 2021 that:

> The government will issue its first sovereign green bond—or green gilt—this summer, with a further issuance to follow later in 2021 as the UK looks to build out a 'green curve'. Green gilt issuance for the financial year will total a minimum of £15 billion. The green gilt framework, to be published in June, will detail the types of expenditures that will be financed to help meet the government's green objectives. The government also commits to reporting the contributions of green gilt spending towards social benefits such as job creation and levelling up.[89]

83 Q4
84 Q79
85 Q108
86 HM Treasury, *Build Back Better: our plan for growth*, CP 401, March 2021, p 91
87 HM Treasury, "Chancellor sets out ambition for future of financial services", accessed 12 February 2021
88 BMO Global Asset Management, Should the UK Debt Management Office issue green gilts? (August 2020), p 1
89 HM Treasury, *Budget 2021*, HC 1266, March 2021, Para 2.144, p 63

61. Despite the Government's announcements on green gilts, in comparison to other European governments, the UK is lagging behind. Germany raised 6.5 billion euros from its first green sovereign bond in September 2020,[90] while France issued its first green sovereign bond in January 2017 raising 7 billion euros. France's green sovereign bonds are used to fund the government's 'Invest for the Future' programme to "fight climate change, adapt to climate change, protect biodiversity and fight pollution".[91]

62. This delay in the issuance of a green gilt may have come at a cost in developing other green bond issuance markets in the UK. Dr Daniel Klier, Group Head of Sustainable Finance at HSBC, highlighted that there was not yet a strongly growing sterling green bond market, as there is in dollars and euros, and noted that a benchmark bond issued by the Government was likely to be needed to unlock the sterling market.[92]

63. While we heard evidence from finance industry experts, including Chris Cummings, Chief Executive Officer of the Investment Association, that there would be investor appetite for a UK green gilt issuance,[93] the Debt Management Office has also previously suggested to us that green gilts may mean raising finance at a premium compared with conventional gilts.[94]

64. However, some of our witnesses disagreed with this analysis. Professor Nick Robins, Professor in Practice for Sustainable Finance, Grantham Research Institute at the London School of Economics, told us that "it would be very plausible to issue something that could raise money at lower cost for the state".[95] Chris Cummings added that "having spoken to our members, I am not convinced that there would be a premium for these investments".[96] Dr Klier agreed, telling us that "at the moment, especially in Germany, we come in at prices that are below the market curve. I do not see any evidence for why we should be at a premium".[97]

65. While John Glen MP, Economic Secretary to the Treasury, confirmed that there had previously been value for money considerations around sovereign green bonds, he noted that "market conditions have materially changed, […] and that is why we announced it."[98]

66. ***We welcome the announcement in the 2021 Budget of a timetable for the issuance of the UK's first green sovereign bond or 'green gilt'. However, the UK is lagging behind other countries in the issuance of these green bonds. This runs the risk of holding back the development of a private sterling green bond market. Although concerns about the potential for green bonds to be a more expensive form of debt for the Government seem to have dissipated to a degree, the Government should none the less set out its tolerance, when issuing such bonds, for them to be more expensive than other forms of Government debt.***

90 "Germany raises 6.5 billion euros from first ever green bond", Reuters, 2 September 2020
91 Agence France Trésor, 'Green OATs', accessed 12 February 2021
92 Q109
93 Q65 [Chris Cummings], also Q109
94 Oral Evidence taken on 24 June 2020 HC (2019–21) 496, Q55–58 [Alison Thewliss, Sir Robert Stheeman]
95 Q95
96 Q109
97 Q109
98 Q243

Greening central banking

67. As part of its monetary policy operations, the Bank of England operates a Corporate Bond Purchase Scheme (CBPS). The Bank describes the CBPS as follows:

> The Corporate Bond Purchase Scheme (CBPS or "the Scheme") was launched in August 2016. It imparts monetary stimulus by lowering the yields on corporate bonds, thereby reducing the cost of borrowing for companies. It does this by triggering portfolio rebalancing into riskier assets by sellers of assets, and by stimulating new issuance of corporate bonds.[99]

The Asset Purchase Facility (APF) currently holds £20 billion of corporate bonds under the CBPS. This represents a small fraction of the total holdings of the APF, which is currently planned to reach £895 billion, and the total market of corporate bonds eligible for the Scheme, which amounts to £160 billion.[100]

68. These corporate bond purchases by the Bank may be being used to fund carbon-intensive activity. This can be seen in the Bank's own published Taskforce on Climate-related Financial Disclosures (TCFD)-compliant disclosures.[101] In his foreword to those disclosures, the Governor of the Bank of England noted that:

> …the carbon intensity of our holdings of UK sterling corporate bonds (2% of the portfolio) reflects the position of the UK market generally. However, there remains a gap between the associated carbon outputs of these holdings and the Paris goals. This demonstrates the additional work needed to meet the UK's goal of net-zero emissions by 2050.[102]

69. Positive Money, a campaign group seeking to "make money and banking work for society",[103] noted what the impact of these holdings meant for the net zero target:

> 'Greening' the Bank of England remains a key step in facilitating the transition to a Net Zero economy by ensuring financial flows are aligned with the government's climate targets. As Britain's central bank, the Bank of England is currently overseeing a financial system which is significantly out of step with the UK's legally binding commitments under the Paris Agreement. As former Bank of England governor Mark Carney told the Treasury Committee in October 2019, the global financial system may be funding temperature rises of more than 4C, more than double the 1.5C aimed for in the Paris Agreement. Indeed, the Bank of England's own asset purchases are currently aligned with a 3.5C increase in temperatures by the end of the century, which the Bank has defended as simply mirroring the market, which the MSCI Reference Portfolio suggests is funding 3.7C warming.[104]

99 Bank of England, 'Asset Purchase Facility (APF): Additional Corporate Bond Purchases - Market Notice 2 April 2020', accessed 9 April 2021

100 Bank of England, Bonds eligible for the Corporate Bond Purchase Scheme as at 3 September 2020' (September 2020); Bank of England, Monetary Policy Summary and Minutes of the Monetary Policy Committee meeting ending on 17 March 2021 (March 2021), p 1

101 Bank of England, The Bank of England's climate related financial disclosure 2020, (June 2020)

102 Bank of England, The Bank of England's climate related financial disclosure 2020, (June 2020), p 1

103 Positive Money, 'Making money and banking work for society (positivemoney.org)', accessed 17 March 2021

104 Positive Money (DEC0060) para 3.1

70. In his appointment hearing in March 2020 with us for the role of Governor of the Bank of England, we asked Andrew Bailey about excluding fossil fuels from future bonds purchases. He told us:

> The original policy with the corporate bond programme was to hold essentially a portfolio that mimicked the corporate bond markets—in other words, it was a neutral portfolio. That was done deliberately. The Bank of England is not in there, picking companies; it is completely neutral. Whatever the market is, we hold the neutral portfolio. The question you rightly raise is whether we should shift that to say, "Given the public interest in climate change, we should shift the make-up of the portfolio to being one that is on the way to net neutral," or however you want to define it. I think there is a very strong argument for doing that.[105]

71. Sarah Breedon, Executive Director for UK Deposit Takers Supervision at the Bank of England and its executive sponsor for work on climate change, emphasised this point. She told us that "what we have said we will do—and we will do—is think about how best to attach conditionality, working with Treasury, which needs to agree it, given that it decides our remit, for the corporate bonds we purchase as part of our quantitative easing approach."[106]

72. At Budget 2021, the Chancellor provided the Monetary Policy Committee of the Bank of England with a new remit letter, in which he amended its remit to reflect the importance of environmental sustainability and the transition to net zero: "I am today updating the MPC's remit to reflect the government's economic strategy for achieving strong, sustainable and balanced growth that is also environmentally sustainable and consistent with the transition to a net zero economy."[107] In response to this new remit letter, the Bank made the following announcement:

> In the coming months we will provide more information about our proposed approach to adjusting the Corporate Bond Purchase Scheme (CBPS) to account for the climate impact of the issuers of the bonds we hold, with a view to adapting our approach by the time of our next scheduled round of reinvestment operations in 2021 Q4.[108]

73. There has been criticism of this change of remit. Lord King, a former Governor of the Bank of England, told the House of Lords on 12 March 2021 that:

> When asset purchases commenced in 2009, the framework was established to ensure that the Bank did not become the arbiter of credit allocation among different sectors and different companies. But the new remit requires the bank to do just that, and to "reflect the importance of environmental sustainability and the transition to net zero"[109] in its purchases of corporate bonds. Some may argue that this is a harmless gesture; after all, given the inflation outlook, it is far from obvious that there will be new asset purchases by the Bank. But what seems a harmless gesture today may prove

105 Oral evidence taken on 4 March 2020, HC (2019–21) 122, Q63 [Julie Marson, Andrew Bailey]
106 Q117
107 HM Treasury, Remit for the Monetary Policy Committee (MPC), March 2021, p 1
108 Bank of England, 'MPC Remit statement and letter and FPC Remit letter, accessed 12 March 2021
109 HC Deb, 3 March 2021, col 259 [Commons Chamber]

> damaging tomorrow. I know that climate change arouses passions, but that is no reason to embroil the Bank of England in what should be the responsibility of government. Climate change and declining biodiversity are serious issues that merit proper debate. Fiddling with the Bank of England's remit, while at the same time taking no action on a carbon tax and freezing fuel duty again, are gestures, not a coherent policy. More importantly, they are the first steps on a slippery slope to undermining the independence of the Bank, and we cannot afford to lose that.[110]

74. **We note the new remit provided to the Monetary Policy Committee, which will allow it to rebalance its Corporate Bond Purchase Scheme to take account of the climate impact of the bonds it holds. We will continue to scrutinise this process and will examine how any changes are enacted, and how those changes impact on the other policy objectives and the independence of the Monetary Policy Committee.**

Long-term Asset Fund

75. We heard a proposal for reform to facilitate green finance from Chris Cummings, CEO of the Investment Association, who told us that his major recommendation for regulatory change was to create a new 'long-term asset fund':

> This is a new fund vehicle that we have been spending a lot of time talking to our friends at the Treasury and the FCA about, which allows retail investors and particularly DC pension funds to invest in infrastructure. […] It is a new fund structure, which is specifically designed to address the long-term investment issues.[111]

76. Sheldon Mills, then Interim Executive Director for Strategy and Competition at the Financial Conduct Authority, told us that:

> We are working closely with the Investment Association in relation to long-term asset funds and trying to ensure that we have the right balance of enabling that innovation in the market, getting coalition from asset managers and others around this new type of vehicle and having the right level of consumer protection and risk in relation to that, so that we have the right badges on it and, when those funds are potentially distributed, the right types of investors can come into them. I am not saying that they are made to be risky, but they are a different type of investment than retail investors might be used to. We are working very closely with the Investment Association, and we hope to finalise that as quickly as we can.[112]

77. In November 2020, the Chancellor announced the launch of a new type of 'long-term asset fund' which would allow pension savers to invest in infrastructure assets.[113] In the same month, the Treasury, the Bank of England and the FCA convened a working group to facilitate investment in productive finance. The minutes of The Productive Finance Working Group Steering Committee note that:

110 HL Deb, 12 March 2021, col 1914 [Lords Chamber]

111 Q77

112 Q175

113 HM Treasury, "Chancellor sets out ambition for future of financial services", accessed 19 February 2021

> The Working Group should draw on a large amount of existing work on the barriers to investment in productive finance. Its focus should be to identify practical ways to address both the operational and demand side barriers, and set out a clear roadmap for their implementation. This would support the Chancellor's public commitment to set up a Long-Term Asset Fund (LTAF) later this year.

The minutes also note that "a successful outcome for the Working Group would be to have facilitated the launch of at least one LTAF, with capital having been committed from a broad range of investors".[114]

78. While in his proposal, Mr Cummings argued that such a long-term asset fund might be available to retail investors, this has been subject to debate at the Productive Finance Working Group Steering Committee. The January 2021 minutes note that:

> The Steering Committee discussed the intended target market for the LTAF [Long Term Asset Fund]. This will be an important question for the TEG [Technical Expert Group] to explore ahead of future Steering Committee meetings. Some members, whilst recognising that the LTAF was unlikely to be a product for the mass retail market, nonetheless, wanted an LTAF to be available to sophisticated segments of the retail market, as well as institutional investors. Others commented that, as this was a new product which would be investing in asset classes not traditionally available to retail investors in an open-ended structure, and which might require notice periods exceeding a year, it would not be suitable for most retail investors. Careful consideration, along with input from the advisory community, would be required about how it conforms to tax wrappers (for example, ISAs, SIPPs). One member noted that listings on exchanges can help provide access to retail investors.
>
> Given the challenges of distributing a new product to the retail market, some members thought the initial focus should be on delivering an LTAF for institutional investors (most notably large DC pension schemes), before facilitating access to retail investors at a later stage.[115]

79. When the Chancellor announced in November 2020 that this new type of 'long-term asset fund' would launch, he explained that it would do so within a year. However, the Investment Association recently announced that a regulatory consultation from the Financial Conduct Authority was required before any new fund could launch.[116]

80. ***We note the debate at the Productive Finance Working Group Steering Committee on retail access to the 'long term asset fund' (LTAF). There should be clarity about who will have access to the LTAF. The Chancellor and the financial regulators should set out the timeframe for the launch of the announced 'long term asset fund' to allow pension savers to invest in long-term projects. We would expect that such an LTAF would be focused on providing a net-zero compliant product.***

114 Bank of England, The Productive Finance Working Group, Minutes of the first Steering Committee meeting, (Tuesday 26 January 2021), paras 3 - 4

115 Bank of England, The Productive Finance Working Group, Minutes of the first Steering Committee meeting, (Tuesday 26 January 2021), paras 20–21

116 Pinsent Masons, 'Details of Long Term Asset Fund Revealed', accessed 19 February 2021

Solvency II

81. We heard evidence that regulatory restrictions under Solvency II were preventing insurance companies from investing in long-term infrastructure assets. Solvency II is the European Directive on the taking-up and pursuit of the business of Insurance and Reinsurance, which came into force on 1 January 2016.[117] The Bank of England describes Solvency II as setting out the "regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure".[118]

82. Huw Evans, Chief Executive Officer of the Association of British Insurers, told us that:

> We have to support the Government and lobby them to change the Solvency II framework so that insurers are in a position to invest in a much wider range of sustainable ESG assets that fully meet the task of policyholder protection and of delivering sustainable returns over the long run, but that enable insurers to put their £2 trillion-worth of assets to much more sustainable and good use going forward."[119]

This point was also emphasised by Aviva in its evidence to the previous Committee, where it argued that:

> Regulators should work to ensure that capital requirements reflect true long-term sustainability risks, and do not disincentivise long term sustainable investment. For example, Solvency II should be reformed so that it no longer discourages insurers from investing in green infrastructure.[120]

83. In October 2020, the Government announced a review of Solvency II and published a call for evidence.[121] In his foreword to that call for evidence, the Economic Secretary noted that "The review will be guided by our objectives: to ensure a vibrant and prosperous insurance sector, to provide long-term capital to support growth, and to uphold high standards of policyholder protection and promote the safety and soundness of firms."[122]

84. ***The Treasury should, as part of its review of Solvency II, consider reforms that could improve the funding of sustainable green infrastructure while maintaining the financial stability of insurers.***

National Infrastructure Bank

85. On 25 November 2020, as part of the launch of the UK's new National Infrastructure Strategy, the Chancellor of the Exchequer (the Rt Hon Rishi Sunak MP) announced a new UK Infrastructure Bank which will draw private finance investment into new infrastructure projects.[123] The National Infrastructure Strategy described what the Bank

117 Directive of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), 09/138/EC
118 Bank of England, 'Solvency II', accessed 11 March 2021
119 Q187
120 Aviva Plc (DUE0048) para 3
121 HM Treasury, Review of Solvency II: Call for Evidence, October 2020
122 HM Treasury, Review of Solvency II: Call for Evidence, October 2020, p 1
123 HM Treasury, *National Infrastructure Strategy*, CP 329, November 2020, p 7

would do:

- Support the Government's commitment to 'levelling up' and net zero;
- Lend to local and mayoral authorities for key infrastructure projects; and
- Provide advice on financing infrastructure, alongside offering debt, equity and hybrid products.[124]

86. Prior to this announcement, some witnesses to our inquiry had broadly supported a state-owned national investment or infrastructure bank.[125] However, Professor Nick Robins, Professor in Practice of Sustainable Finance, Grantham Research Institute at the London School of Economics, reflected on the Green Investment Bank, the Government's state-owned investment bank which invested in offshore wind, waste and biomass, energy efficiency and small scale renewables from 2012 until its sale in 2017.[126] Mr Robins said that

> The Green Investment Bank was neither one thing nor the other. It was neither a classic, long term public infrastructure bank, like KFW in Germany or the European Investment Bank, and it was not a fully profit-making private sector investor […].[127]

He noted that there would not be a role for "a niche green investment bank, but for what is called a policy bank, a national investment bank to support development of the Government's economic policy".[128]

87. The National Audit Office found in 2017 that the Green Investment Bank had invested in 100 projects, committing £3.4 billion of its own capital, and "had attracted £8.6 billion of private capital, equating to around £2.50 for every £1 invested".[129] While the Green Investment Bank attracted investment into the green economy, particularly into off-shore wind, its impact in other sectors was less certain. The National Audit Office recommended that when setting up companies the Government should set out criteria for judging success and develop a framework for evaluating performance, and should ensure that the company's capital structure aligns with its objectives, and that there are clear arrangements for ongoing financing.[130]

88. Regarding the sale of the previous Green Investment Bank, Sir Amyas Morse, the former Comptroller and Auditor General said:

> Ultimately the value for money of the Green Investment Bank intervention will only be seen over time. A key test will be whether the Government needs to intervene again in this way to stimulate growth in the green economy and to help it achieve its climate change commitments.[131]

124 HM Treasury, *National Infrastructure Strategy*, CP 329, November 2020, p 70
125 Q65 [Professor Nick Robins], Q74, Q211, Qq220–221 [Sandra Boss, Huw Evans]
126 Green Finance Institute, The Role of a UK National Infrastructure Bank in a Green Recovery Insights paper, (December 2020), p 3
127 Q74
128 Q74
129 Report by the Comptroller and Auditor General, National Audit Office, The Green Investment Bank, HC (2017–19) 619, para. 8
130 Report by the Comptroller and Auditor General, National Audit Office, *The Green Investment Bank*, HC (2017–19) 619, para. 20
131 Report by the Comptroller and Auditor General, National Audit Office, *The Green Investment Bank*, HC (2017–19) 619, para. 19

Only three years on from the sale of the GIB, the Government has decided it does again need to intervene in order to stimulate growth.

89. At Budget 2021, the Chancellor provided more detail on how the UK Infrastructure Bank would operate. He said that it:

> will have £22 billion of financial capacity to deliver on its objectives, consisting of £12 billion of equity and debt capital and the ability to issue £10 billion of guarantees. It will draw capital from HM Treasury and be able to borrow from private markets. It will also grow through recycling and retention of return on investments. The government will allocate capital to the Bank in phases in line with its institutional development.[132]

90. However, the Office for Budget Responsibility (OBR) noted in its forecast that:

> As an EU member state, the UK received almost €120 billion (or £89 billion) in loans and equity from the EIB between 1973 and 2019. In the five years prior to the EU referendum in 2016, EIB lending averaged £5 billion a year, but it fell sharply in 2017 and was less than £1 billion a year in 2018 and 2019. The Government forecasts that the UKIB will lend and invest around £1½ billion a year (net of lending to local authorities that would otherwise have taken place through the Public Works Loans Board). This would be equivalent to around a third of the financing that was provided by the EIB prior to the EU referendum.[133]

91. While the Government acknowledged that the EIB had previously provided support to UK projects, it noted that an assessment from Vivid Economics for the National Infrastructure Commission[134] "showed that a portion of EIB activity crowded out private investment" and that respondents to the Infrastructure Finance Review echoed this point. The Government's view therefore is that "where the EIB provided support in well-financed areas, the government anticipates that the private sector will step in without public sector support".[135]

92. Witnesses to our post-Budget 2021 evidence session were in agreement that the UK Infrastructure Bank's proposed funding position was not big enough. Paul Johnson CBE, Director of the Institute for Fiscal Studies, told us that "If it is going to be effective, yes, it will need to be bigger. It is considerably smaller than the European Investment Bank, in the amount of money that that was making available. If you are serious about this in the longer run, it is going to have to be a bit bigger."[136] Rain Newton-Smith, Chief Economist at the Confederation of British Industry, agreed with Mr Johnson: "The initial pot of capital and equity is small. That will need to be scaled up over time. As you point out, it is much smaller than the German equivalent".[137]

93. Mr Johnson also noted that while there might be a case for starting relatively small, he emphasised the need to focus on how the money is spent, how the institution is set up, and to be clear about the purpose of the UK Infrastructure Bank:

132 HM Treasury, UK Infrastructure Bank – Policy design, March 2021, p 4
133 Office for Budget Responsibility, Economic and fiscal outlook on Budget 2021, March 2021, Box 3.6
134 Vivid Economics, The role and impact of the EIB and GIB on UK infrastructure investment (May 2018), p 6
135 HM Treasury, UK Infrastructure Bank – Policy design, March 2021, para. 1.7
136 Oral evidence taken on 10 March 2021, HC (2019–21) 1196, Q196 [Dame Angela Eagle, Paul Johnson]
137 Oral evidence taken on 10 March 2021, HC (2019–21) 1196, Q197 [Dame Angela Eagle, Rain Newton-Smith]

> We need to be quite clear about quite what the purpose of these organisations is. […] which is really about lowering the risk for the private sector investment, reducing financing costs, possibly, on the green side, helping to create new investable asset classes and, in particular, being able sensibly to invest in early-stage long-horizon projects with high upfront costs and risks, the sort of things that are particularly important in the green economy.[138]

94. While the Government announced at the Spending Review in November 2020 that it intended that the UK Infrastructure Bank should be operational in an interim manner from spring 2021, and that it would legislate to put the Bank on a statutory footing,[139] the Chancellor's announcement at Budget 2021 suggested that a framework document providing further details on its operations would be published in the spring ahead of the UK Infrastructure Bank's launch.[140]

95. ***In the proposed framework for the new UK Infrastructure Bank, the Chancellor should clarify its governance arrangements, how investment decisions will be made, and how it will ensure that it attracts sufficient private capital. In particular, it should clearly set out how the Bank will meet the Government's commitment to Net Zero. The Government should also set out how it will incorporate lessons learned from the former Green Investment Bank, and whether it intends that the UK Infrastructure Bank should be funded to offer a lending facility at a level similar to that offered by the European Investment Bank before the UK referendum on membership of the EU.***

138 Oral evidence taken on 10 March 2021, HC (2019–21) 1196, Q196 [Dame Angela Eagle, Paul Johnson]
139 HM Treasury, *National Infrastructure Strategy*, CP 329, November 2020, p 70
140 HM Treasury, UK Infrastructure Bank – Policy design, March 2021, p 3

3 The role of consumers

The importance of consumer choice

96. Consumer behavioural change, on a voluntary basis, will help to drive the transition to net zero, requiring both education and engagement. Consumer choice will be particularly important, so that people can make decisions that best suit their particular situation.

97. Community Energy England—which supports those committed to the community energy sector—told us that achieving net zero would require consumer 'buy-in', acknowledging that while "investment in Green Infrastructure and technology are vital, net zero cannot be 'delivered', only achieved with the consent and active participation of the people, not least because the Climate Change Committee estimates that 62% of all the measures it identifies as essential to achieving net zero are dependent on behaviour change".[141] In September 2020, the UK Parliament-sponsored Climate Assembly UK, which brought together people from all walks of life to discuss how the UK should meet the net zero target, published a report highlighting the importance of consumer choice in combating climate change, as it allows individuals to choose the best solution for them.[142]

98. The Treasury has also noted that interventions can make it easier for consumers to choose low-carbon options. In its *Net Zero Review Interim Report*, the Treasury states that:

> Facilitative levers seek to change the structure of the market or the way people make decisions in order to make it easier for households and firms to choose low-carbon options. These levers can complement carbon pricing by addressing the other market failures that hold back the process of decarbonisation. This can lower the overall costs of the transition, change who pays and who is able to cover the necessary costs.[143]

99. We consider below three elements that may have an impact on consumer choices around green finance:

- Consumer inertia or an inability to choose
- Appropriate transparency and 'Greenwashing'
- Innovation

Consumer inertia and a lack of choice

Defined contribution pensions

100. Consumer choice can only work as a lever if consumers utilise the choices available to them. Yet within pensions, consumers may not have choices, or where they do, they may not use them. We heard evidence that 96% of pension savers[144] in defined contribution[145] pension schemes are invested in their pension's 'default' fund.[146]

141 Community Energy England (DEC0091) para. 2.5
142 Climate Assembly UK, The path to Net Zero - Climate Assembly UK Final Report, (September 2020), p.6
143 HM Treasury, Net Zero Review: Interim report, December 2020, p 49, para 4.15
144 Q188
145 Defined contribution pension scheme definition: "Defined contribution pensions build up a pension pot using your contributions and your employers contributions (if applicable) plus investment returns and tax relief", Money Advice Service, accessed 15 February 2021
146 "A 'default' fund is the fund that members see their contributions invested in should they fail to make an alternative investment choice", Default fund design in DC, accessed on 15 February 2021

101. Huw Evans, Chief Executive of the Association of British Insurers, told us that one of the key challenges in relation to 'default' funds was that of low consumer financial capability and the need for clear explanations about the options available to consumers.[147] Mr Evans hoped that part of the solution might come from fintech,[148] through the "development of more consumer-facing apps and opportunities for customers to engage with how their pension funds are managed".[149]

102. Mr Evans, however, also highlighted a potential policy barrier against offering sustainable funds as a 'default' fund option for auto-enrolled pensions:

> The charge cap that we currently have in place for auto-enrol pension schemes is set at 0.75%. Nearly all ESG funds[150] are above that because they involve active management, so they are more expensive to run. As long as you have a charge cap that does not allow for any exceptions, for example for ESG, you will find it hard to shift that. I would argue that there is a strong case in public policy terms for the charge cap having an exemption if there is an ESG component, to give people who are auto-enrolled in those funds to have the option to go above it.[151]

103. However, recent government announcements may mitigate this charge cap restriction to Environmental, Social, and Governance ('ESG') fund take-up in auto-enrolled pensions. In its Budget document *Budget 2021*, the Treasury noted that:

> The government will consult within the next month on whether certain costs within the charge cap affect pension schemes' ability to invest in a broader range of assets. This is to ensure pension schemes are not discouraged from such investments and are able to offer the highest possible returns for savers. DWP will also come forward with draft regulations to make it easier for schemes to take up such opportunities within the charge cap by smoothing certain performance fees over a multi-year period.[152]

104. Anthony Raymond, General Counsel and Director of Legal Services, Policy and Advisory Directorate at the Pensions Regulator, told us that transparency would be "really important" in tackling default fund inertia, noting that defined contribution schemes now had to publish a statement of investment principles. Mr Raymond considered though that in the case of a default fund in an occupational pension scheme[153] "to effect real change in this space, it is about ensuring that the trustee is doing the right things and considering the right issues".[154] Sheldon Mills, then Interim Executive Director of Strategy and Competition at the Financial Conduct Authority, took a similar view:

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147 Q188

148 "Fintech" or Financial Technology is defined by the Bank of England as "technology-enabled financial innovation, which is changing the way financial institutions provide - and consumers and businesses use - financial services".

149 Q190

150 Environmental, Social and Governance ('ESG') funds are defined by Robeco as: "portfolios of equities and/or bonds for which environmental, social and governance factors have been integrated into the investment process", accessed 15 February 2021

151 Q190

152 HM Treasury, *Budget 2021*, HC 1266, March 2021, para 2.147, p 64

153 Occupational pension scheme definition: "Workplace pension schemes or workplace pensions are pension schemes that are set up by employers to provide their employees with retirement benefits", Pensions Advisory Service, accessed 15 February 2021

154 Q126

> … what we need to think about, […] is whether the right mechanisms are in place so that that demand filters through into the choice sets that people have in things like pensions, and whether the right products are available […] that can go into default funds, so that either the mechanism demonstrates through transparency to pension holders that there is something there for them, or you can have greater choice at the point of entry. We need to think more closely about that with trustees.[155]

105. Mr Mills also explained that the Financial Conduct Authority had already taken some action in requesting Independent Governance Committees[156] for workplace personal pensions schemes to ensure that Environmental, Social, and Governance (ESG) considerations were included in their assessment of investment mandates.[157] However, Mr Mills acknowledged that with the increasing demand for ESG-related investments, "there must be more that we can now start to do to match this increasing demand, but also filter into the overall challenge of net zero".[158]

106. When asked about the high proportion of consumers in default funds, the Economic Secretary to the Treasury told us that:

> … The pensions world is changing rapidly, and the Pensions Bill going through Parliament is going to make some progress, but the real challenge for the immediate term is to define what that green investment is and progress that at a wholesale and at a retail level, so that we can get more clarity on that. We will then make progress as the opportunities to invest a higher proportion in sustainable investments become clearer and more apparent.[159]

107. In a follow-up letter in December 2020, the Economic Secretary noted the interventions the Government had made in this area, and he told us that "whilst we welcome pension saver engagement and consumer choice, it should never be necessary to switch out of the default to invest sustainably". However, he did not advocate mandatory targets, telling us that:

> Mandatory climate targets would mean that pension scheme governance bodies would be in a position where they are forced to choose between making the right investment decision for their members and breaching legislation. The easiest way to protect themselves in this situation—and, under threat of penalty, the most likely action—is divestment. However, uncoordinated divestment will not help us reach our net zero goal, as the stock could be bought up by other investors and emissions will not be curbed. Pension scheme trustees and savers will remain exposed to the consequences of those high emissions whilst having less ability to hold the emitters to account.

155 Q126

156 Independent Governance Committee definition: Financial Conduct Authority rules "require that firms that operate workplace personal pensions schemes to establish and maintain Independent Governance Committees (IGCs). IGCs have a duty to scrutinise the value for money of the provider's workplace personal pension schemes, taking into account transaction costs, raising concerns and making recommendations to the provider's board as appropriate. IGCs must act solely in the interests of relevant scheme members; act independently of the provider.", Financial Conduct Authority, accessed 15 February 2021

157 Q126

158 Q126

159 Q306

> Rather, the Government supports a whole economy transition, where duties land equally on all participants in the investment chain. Pension schemes and pension savers—many on low to moderate incomes—should not be singled out for blunt targets in an ineffective effort to fund the transition. This is a much less equitable outcome than the use of disclosure, regulation, and public investment which Government is already committed to.[160]

108. ***There is a high level of inertia amongst consumers around defined contribution pension fund choice, with most remaining in the 'default' fund. The Treasury has been robust in its view that default funds should not be required to move to more green alternatives, but at the same time maintains that consumers should not have to switch out of the default fund to invest sustainably. The Government should resolve this apparent contradiction. At present the Treasury is relying on a blend of disclosure, regulation and public investment to foster a transition towards more sustainable investment. For now, we support that approach, but the Treasury should report regularly on the proportion of pension holders in defined contribution pension schemes who remain in the default fund, and the extent to which those default funds are aligned with a path to Net Zero.***

Requirements on workplace pension scheme trustees

109. Consumers with Defined Benefit pensions are unable to choose how their assets are invested, creating an absence of consumer choice as a driver of change. They are therefore reliant on the pension scheme trustees to consider material climate-related financial risks, and to invest sustainably.

110. The Pension Schemes Act 2021[161] ('the Act') is intended to support the Government's expectation, set out in the Green Finance Strategy, that all large asset owners will make disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) by 2022.[162] Section 124 of the Act amends the Pensions Act 1995 so as to provide for regulations which "may impose requirements on the trustees or managers of an occupational pension scheme of a prescribed description with a view to securing that there is effective governance of the scheme with respect to the effects of climate change".[163]

111. In September 2020, Anthony Raymond, General Counsel and Director of Legal Services, Policy and Advisory Directorate at the Pensions Regulator, told us that the Act would make a real difference, as the TCFD requirements would be put on a statutory footing. He noted that the Act would also include regulation-making powers which would be an area of focus for the regulator.[164]

112. We note that the UK Sustainable Investment and Finance Association (UKSIF) found large-scale non-compliance among trustees with the previous regulatory expectations on Environmental, Social, and Governance (ESG) considerations set by the Pensions Regulator.[165] Although Mr Raymond told us that of the schemes reviewed by UKSIF "only

160 HM Treasury, Letter to the Chair of the Treasury Committee from the Economic Secretary, Decarbonisation of the UK economy and green finance inquiry, 16 December 2020, paras 11 - 13
161 Pension Schemes Act 2021 received Royal Assent on 11 February 2021
162 Explanatory Notes to the Pension Schemes Bill [HL], 16 July 2020 [Bill 165 (2020)-EN], para 29
163 Pension Schemes Act 2021, Section 124(2)
164 Q118
165 Q134; UK Sustainable Investment and Finance Association, 'Changing course: how pension trustees are responding to climate change and ESG', accessed 15 February 2021

nine of the 45 schemes were within the purview of the legislation at that point",[166] he acknowledged that the Pensions Regulator needed to be clear with the industry and engage with them. However, Mr Raymond also noted that supervisors had been trained on "the sorts of things they need to be looking out for when they are engaging with schemes, and where necessary, enforcement".[167]

113. Mr Raymond explained that although the governance of larger pension schemes tended to be better, and were better equipped to deal with ESG issues, "we have systemic issues across the pensions landscape in terms of large numbers of small DC [Defined Contribution] schemes […] over 30,000, with 6,000 or so DB [Defined Benefit] schemes".[168]

114. The Department of Work and Pensions first consulted on 'Taking action on climate risk: improving governance: improving governance and reporting by occupational pension schemes' in August 2020.[169] In its follow-on consultation in early 2021, on the new regulations to be made under the Pension Schemes Act 2021, the Government confirmed that primarily larger pension schemes would initially be subject to mandatory climate change governance and TCFD reporting requirements:

(a) trust schemes with £1 billion or more in relevant assets

(b) authorised master trusts; and

(c) authorised schemes providing collective money purchase benefits.[170]

115. The Government acknowledges that industry responses to the first consultation most commonly "suggested that the asset threshold should move down rapidly to below £1bn" and that a significant number of respondents suggested that "smaller schemes might be encouraged to implement the climate governance requirements voluntarily in the first instance, or perhaps on a comply or explain basis."[171]

116. The Government has confirmed that it will consult again in 2024 before deciding whether to extend the regulations to pension schemes with less than £1 billion in assets.[172] However, in the interim this will leave smaller pension schemes outside the scope of the regulations and these pension savers outside the trustee obligations envisaged by the Pension Schemes Act 2021.

117. **Consumers who hold defined benefits pensions have no choice as to how their assets are allocated. They rely upon their trustees. We note that previous attempts to get defined benefit schemes to acknowledge Environmental Social and Governance concerns have not been entirely successful. In its phased approach to implementing the regulations, the Pensions Regulator will need to consider how to reach smaller pension schemes. The draft regulations appear to exclude the smallest trust schemes.**

166 Q134
167 Q134
168 Q134
169 Department for Work and Pensions, 'Taking action on climate risk: improving governance and reporting by occupational pension schemes', accessed 11 April 2021
170 Department for Work and Pensions, Taking action on climate risk: improving governance: improving governance and reporting by occupational pension schemes, January 2021, p.19–21, 26, para 8
171 Department for Work and Pensions, Taking action on climate risk: improving governance: improving governance and reporting by occupational pension schemes, January 2021, p.27–28, paras. 18–19
172 Department for Work and Pensions, Taking action on climate risk: improving governance: improving governance and reporting by occupational pension schemes, January 2021, p.21

However, when their effects are aggregated, they may still have an impact on meeting the net zero target. *In responding to this Report, the Government should set out how these smaller funds will be encouraged to integrate climate governance and reporting requirements.*

Appropriate transparency for consumers and 'Greenwashing'

Greenwashing

118. For consumers to make effective choices they will need clear information to be able to do so, and such information will need to be appropriate for all consumers. In its *Net Zero Review: Interim Report*, the Treasury observed that:

> Measures to improve information about low-carbon choices can help drive consumer and producers towards alternative products. Examples include information and educational campaigns; government advice centres and online support services; and mandating improved labelling to help drive consumer and producer choices towards low-carbon alternatives. They usually come at low fiscal costs and can increase businesses' accountability to consumers for their emissions. However, they can come with high compliance costs for businesses.[173]

119. However, we heard evidence that 'greenwashing'—where products or funds are labelled as 'green' or sustainable but may not be so—may be an issue, with the potential to mislead consumers and cause capital misallocation.

120. The industry itself appeared aware of the danger that 'greenwashing' presented. Chris Cummings, representing the Investment Association, told us that:

> From that reputational point of view, ours is an industry that takes its responsibilities incredibly seriously on this. We understand completely the dangers of being accused of greenwashing. Part of the challenge is finding investible projects, investible companies, that have a good story to tell and are committed to transitioning. The danger we are all aware of is greenwashing: finding something that looks a bit green and promoting it as a green success story. That undermines everything we are trying to achieve.[174]

121. Dr Daniel Klier, Group Head of Sustainable Finance at HSBC, outlined the dangers that 'greenwashing' may pose. He drew our attention to an annual investor survey that suggested that 80% of respondents considered that lack of disclosure and consistent definitions held back further investment into sustainability and the energy transition.[175] Professor Nick Robins, Professor in Practice of Sustainable Finance, Grantham Research Institute at the London School of Economics, agreed that data would allow investors to distinguish between assets and understand "which investments and assets are aligned to the transition"[176] to net zero.

173 HM Treasury, Net Zero Review: Interim Report, December 2020, p 50, para 4.15
174 Q67
175 Q68
176 Q68

122. However, Saker Nusseibeh, Chief Executive Officer of Federated Hermes International,[177] took a more optimistic view of what 'greenwashing' might represent and told us that:

> … greenwashing is at least an acknowledgement by the industry that it is important, that society thinks it is important, and that the regulator thinks it is important to reduce carbon footprint. That must be a first step. The second step is to have the taxonomy and the regulation to winnow away the truth from that which is less true.[178]

123. When asked about the importance of greenwashing, Sheldon Mills, Interim Executive Director of Strategy and Competition at the FCA, replied:

> We do focus on greenwashing, quite a lot from the consumer perspective, in terms of what is being delivered to consumers and the types of products or funds they are investing in. There are two ways we interact with either funds or products within our system. One is through our authorisations work. If a fund is being authorised with us and it pertains to be an ESG-related fund, we will look at that to see whether that is going to be clear, fair or misleading. Is it what it says on the tin? We have seen instances where what the fund says it is investing in does not really stack up with it being ESG.[179]

However, he also noted the limits of the FCA's remit:

> In one sense, it is absolutely apposite to say that, if ESG is so broad that funds go into things like greening fossil fuel companies a little bit, we might not necessarily meet some of the goals, if the funds are not going into new and innovative businesses that are really driving change in relation to those goals. That is not entirely our role. Our role is, in a sense, to look to make sure that the fund does what it says on the tin, and that has been our focus.[180]

124. **The financial services industry broadly accepts that 'greenwashing' is detrimental to good consumer outcomes and to the achievement of the net zero goal.** ***The Treasury must work with the FCA to ensure that the regulator has the appropriate remit, powers and priorities, and uses its powers, to prevent 'greenwashing' of financial products available to consumers.***

125. We consider later in this Report, at paragraph 184, what steps might be taken to implement a UK 'green' taxonomy, which could help to give more assurance that financial products which are marketed as "green" are indeed contributing to the transition to net zero.

Climate risk labels

126. In line with the potential for mandating improved labelling cited by Treasury in its Net Zero Interim Review "…to help drive consumer and producer choices towards

177 Federated Hermes International is an asset manager
178 Q196
179 Q119
180 Q120

low-carbon alternatives”,[181] Huw Evans, Director General of the Association of British Insurers, told us that “if we are talking about retail investors as opposed to institutional investors, we have to have a very straightforward set of explanations that do not mislead and that enable those customers to fully understand the potential risks as well as the potential rewards, to go alongside their motivation.”[182]

127. Some firms are already providing carbon labels on their products. Sandra Boss, Global Head of Investment Stewardship at BlackRock told us that:

> “[…], all our EMEA[183] funds are now labelled with their carbon intensity. That is something we are doing worldwide. We are really trying to help people see the sustainability content of the product they are buying. That will help as well. Hopefully, ultimately, they will also get those long-term savings goals.”[184]

128. In February 2020, Andrew Bailey, then Chief Executive of the Financial Conduct Authority, told us that a ‘visual rating system’ to disclose the carbon footprint of financial products could be considered, but he believed that a “comprehensive approach would currently be challenging”. He identified data and methodological limitations, such as difficulties in sourcing appropriate data inputs; insufficient and inconsistent issuer-level disclosure; and the lack of an agreed set of standards, metrics and criteria for defining sustainable activities. Mr Bailey then referred to other product label initiatives, including the EU’s development of an ‘eco label’, and UK industry plans by the Investment Association and the British Standards Institution to consider product labels.[185]

129. We asked the Economic Secretary to the Treasury, John Glen MP, whether labelling of funds or indices should distinguish between ‘green’ funds investing only in renewables and those focused on transition finance which could include polluting companies. He responded that “To what extent signposting and labelling of funds would need to be adjusted is a technical matter and you would need to look very carefully at what industry says”.[186]

130. **Financial products should be clearly labelled to allow consumers to assess the relative climate impacts of products and to make choices accordingly. However, allowing every firm to create its own consumer sustainability labels may lead to inconsistencies and consumer confusion.** ***The Treasury and the Financial Conduct Authority should consult on the merits of making climate or carbon labels for consumer financial products mandatory, as a means to encourage innovation. The FCA should consult on how best to make such labels readily and widely understood.***

Passive investments and indices

131. Indices, such as the FTSE 100, are an important part of the investment landscape. They sit at the heart of passive tracker funds (in which investments simply track an index), which have risen in popularity.[187] However, we heard two concerns related to indices in

181 HM Government, Net Zero Review Interim Report, December 2020, para. 4.15
182 Q188
183 Europe, Middle East, and Africa (EMEA)
184 Q195
185 Financial Conduct Authority, Letter from CEO of FCA to Chair regarding Climate Risk, 24 February 2020, p 3
186 Q310
187 “Passive funds’ share of European investment market jumps to 20%”, Financial Times, 8 December 2020

terms of green finance, and which reflect the concerns already discussed in this report around consumer choice. They are that:

- popular indices such as the FTSE 100 may contain high carbon assets;[188] and
- Indices that purport to be 'green' or ESG compliant may have constituents that appear not to match that label.

132. On the importance of indices, the previous Committee heard evidence from Simon Howard, Chief Executive of the UK Sustainable Investment and Finance Association, in which he explained that this was also an issue for pension funds as most "will benchmark their fund manager's performance against a benchmark index, so indices are vitally important".[189]

133. In December 2019, the Guardian reported that the FTSE4Good indices, designed as sustainable investment indices with clearly defined ESG criteria, had added oil companies including Rosneft Oil and ConocoPhillips (13th and 15th largest oil companies by market capitalisation) to the FTSE4Good index. The Guardian noted that the public factsheets showed that 65 oil and gas companies were present on FTSE4Good's emerging and developed markets indices.[190]

134. Rachel Haworth, UK Policy Manager at ShareAction, a charity promoting responsible investment, told the previous Committee that:

> We need to ensure that we are promoting fossil fuel free indices. They need to be mainstreamed. They need to be the default option, because otherwise, as long as we have these kinds of small technical issues that completely change the way markets are functioning, nothing is going to change substantially.[191]

135. We put to Sheldon Mills, Executive Director of Competition and Consumers at the Financial Conduct Authority, concerns around investment indices, and in particular the FTSE4Good index. He replied:

> We do not have significant concerns, other than that from a general viewpoint we would expect the indices to seek to ensure that they are transparent as to what is on them. I cannot speak to that specific index, but there should be a level of transparency so that people can take the right choice based on the information available to them.[192]

136. On whether indices should be clearly marked, the Economic Secretary to the Treasury, while noting the role of transparency and the education of finance professionals, told us that:

> The Benchmarks Regulation (the regulation governing investment fund indices) includes disclosure requirements concerning how benchmark administrators take into account Environmental, Social and Governance factors. In 2019, two new categories of "climate-related benchmarks" were

188 "FTSE trackers expose investors to 'stranded assets'", Citywire, 1 November 2016,
189 Oral evidence taken on 8 October 2019, HC (2017–19) 2233, Q91 [Mr Baker, Simon Howard]
190 'FTSE leaves coal and oil firms and G4S on ethical investment list', The Guardian, 22 December 2019
191 Oral evidence taken on 8 October 2019, HC (2017–19) 2233, Q93 [Mr Baker, Rachel Haworth]
192 Q121

> also introduced under the Benchmarks Regulation. "Climate Transition Benchmarks" (CTBs) must be constructed so that the underlying assets are on a decarbonisation trajectory, while "Paris-Aligned Benchmarks" (PABs) must be constructed so that the underlying assets are aligned with the objectives of the Paris Climate Agreement. Together, these standards will enhance the transparency and comparability of "low carbon" benchmarks to enable investors to make more informed decisions.[193]

137. **We note the concerns expressed about indices, in that the most popular may be carbon-intensive, and those that purport to be green may have carbon-intensive constituents. The risk remains that many consumers are unaware of the carbon-intensity of the indices that their passive investments are tracking. *The Treasury and regulators should therefore ensure that all indices (whether conventional or climate-friendly) clearly set out the overall carbon footprint of the assets included within indices.***

138. **On the concerns around the constituents of indices described as 'green', we note the requirements under the Benchmarks Regulation, which should be used to help consumers make better choices. However, it is clear that in some cases the labels or descriptions of 'green' or 'climate-related' indices do not necessarily match legitimate consumer expectations of what they would commonly be understood to mean. *The Treasury and FCA should review the provisions in the legislative and regulatory framework and ensure that the labels and descriptions of indices accurately reflect their content, in line with consumer expectations.***

Green product innovation

139. One of the ways consumer choice might be improved within Green Finance may be through innovation. One of the aims set out by the Government for its *Green Finance Strategy* was to "position the UK at the forefront of green financial innovation and data and analytics". It would do this by "creat[ing] an environment that catalyses UK innovation in green finance products and services, including data and analytics, in collaboration with regulators, industry, and academia".[194]

140. The *Green Finance Strategy* also provided the following description of the UK's record in this area:

> The UK has a strong record in green financial innovation ranging from Yieldcos, green bonds and environmental, social and governance (ESG) Exchange Traded Funds listed on the London Stock Exchange Group to green mortgages and retail investment platforms.[195]

141. In July 2019, the Government implemented a key recommendation of the Green Finance Taskforce and launched the Green Finance Institute (GFI). Envisaged as the "UK's principal forum for collaboration between the public and private sector with respect to green finance", it is intended to form an integral part in delivering the Government's

193 HM Treasury, Letter from Economic Secretary relating to Decarbonisation and Green Finance, 16 December 2020, para. 14 -17

194 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, pp 10, 55

195 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, p 10

Green Finance Strategy.[196] The GFI states that it works with policymakers, industry and academics, and that "in convening and leading action-focused coalitions, we foster the design and promote the launch of innovative financial mechanisms that create commercial revenue opportunities".[197]

142. The Government has shown recent innovation, in announcing at Budget 2021 that the Government will offer a green retail National Savings & Investment product in the summer of 2021. The product will "give all UK savers the opportunity to take part in the collective effort to tackle climate change […]".[198]

143. Dr Daniel Klier, Group Head of Sustainable Finance at HSBC, provided this description of when public money should be used to stimulate innovation:

> The place where public money is needed is in technologies that are not yet ready for market. Wind is a very good example where the UK was a world leader by creating a framework that made the technology market ready and then it was time to withdraw any subsidies.
>
> If we think about the long list of technologies—hydrogen and electric vehicles, and at some point we can talk about lowemission aviation and the like—those are technologies where public money is needed to bring them to the place where they are commercially viable. At the moment, private money does not flow, unless you are an extraordinary risk taker who seeks an extraordinary return at the end. Those are the technologies where public money is needed, and the public also needs to be educated enough to withdraw subsidies at the point when it is ready for commercial application.[199]

144. Bruce Davis, Chief Executive Officer of Abundance Energy,[200] told the previous Committee that it had taken his company two years to become authorised by the Financial Services Authority [predecessor to the Financial Conduct Authority] and that green finance innovation was difficult. Mr Davis explained that this was because "It is long term, it requires understanding of assets […] We are not seeing the credit knowledge and expertise spread as widely as it could be, to bring down the costs of capital and speed the flow."[201]

145. Mr Davis also noted that although Barclays' green mortgage product had retrospectively shown "that people who make that decision are a better credit risk",[202] this knowledge had not been developed to create a "green Experian [Credit Reference Agency]".[203] Mr Davis similarly noted that residential retrofits (such as installing solar panels or insulation) did not yet signal a higher market value on the housing market and "do not provide the sort of returns that you can get from […] a kitchen refurbishment".[204]

196 Department for Business, Energy & Industrial Strategy, 'Guidance Green finance Transition to a green financial system and mobilising investment in clean and resilient growth', *accessed 18 March 2021*
197 Green Finance Institute, 'Our work', accessed 18 March 2021
198 HM Treasury, *Budget 2021*, HC 1226, March 2021, para 2.145
199 Q85
200 Abundance Energy is an investment platform facilitating investments in sustainable projects
201 Oral evidence taken on 8 October 2019, HC (2017–19) 2233, Q85 [Mr Streeting, Bruce Davis]
202 Oral evidence taken on 8 October 2019, HC (2017–19) 2233, Q85 [Mr Streeting, Bruce Davis]
203 Oral evidence taken on 8 October 2019, HC (2017–19) 2233, Q85, [Mr Streeting, Bruce Davis]
204 Oral evidence taken on 8 October 2019, HC (2017–19) 2233, Q85, [Mr Streeting, Bruce Davis]

146. In relation to insurance, Huw Evans, Chief Executive Officer of the Association of British Insurers, told us that the industry was beginning to make more use of 'resilient repair', in which homes in high flood risk areas are repaired in a way that is resilient to future flood incidents, and suggested that "use of apps, greater knowledge, and more specific data modelling about incidents of flooding"[205] would enable customers to buy products that were more responsive to their flood risk.

147. The pace of innovation still appeared laggardly to some who gave evidence. Legal and General told us that "green financial products for retail customers (eg mortgages, though we have recently launched an equity release product with additional cashback for green housing modifications) have not developed quickly enough."[206] Barclays, when considering business investment, noted that:

> There are already a number of green products available in the marketplace that are contributing to the net zero goal, including 'use of proceeds' loans which are relatively easy to identify (e.g. for Wind, Solar etc.). However, more needs to be done in the corporate space, where an appropriate incentive structure is required to encourage small, medium and large corporates to select projects that will advance net zero (e.g. opting for electric vehicles or sustainable supply chains, or focusing on the reduction of emissions).[207]

148. In its October 2018 Discussion Paper *Climate Change and Green Finance*, the FCA noted that "the FCA has a clear role to ensure markets for green finance are open to new entrants and innovation, enabling successful firms to thrive and deliver better outcomes for consumers."[208] Sheldon Mills, Interim Executive Director of Strategy and Competition at the Financial Conduct Authority, told us that:

> To excite consumers you need exciting products. If you want to excite the youth, you need apps that tell you how your investments might relate to ESG, et cetera. We, in 2019, had our green fintech challenge. We selected nine products. Some of them have even gone to market, which is fantastic. We are encouraging innovation to come in through the door, and working through how we can remove regulatory barriers, so we can have ESG-related financial services products growing up.[209]

149. **The Government's Green Finance Strategy noted the need for innovation in green finance products and services, yet the evidence we have received suggests that the pace of innovation could be accelerated and that more could be done to encourage take-up.** ***The Financial Conduct Authority should seriously consider undertaking further "green fintech challenges" to encourage innovation. The regulator should also set out how it will tackle remaining regulatory barriers which discourage innovative 'green' financial products from coming to market. The Government and the regulators should work more closely with the Green Finance Institute to bring innovative ideas which will benefit consumers to the market.***

205 Q203
206 Legal and General (DEC0120) p 5
207 Barclays (DEC0052) p 2
208 Financial Conduct Authority, Climate Change and Green Finance Discussion Paper DP18/8, (October 2018), p9, para 4.4
209 Q161

4 Regulators and regulation

150. Regulation will play a key role in meeting the net zero target. In this chapter, we consider:

- The remit of the regulators;
- Prudential risks and the capital regime;
- Climate-related financial disclosures and a suitable taxonomy to encourage transparency.

Remit of the Prudential Regulation Committee and the Financial Conduct Authority

151. The Government's *Green Finance Strategy* in 2019 recognised the role that the financial regulators—Bank of England, Financial Conduct Authority (FCA), and the Pensions Regulator (TPR)—will play in greening the UK financial system.[210] In that Strategy, the Government made the following commitment:

> For the Prudential Regulation Authority and Financial Conduct Authority, we will ensure that the need to have regard to the COP21 Paris Agreement when considering how to advance their objectives and discharge their functions is reflected in the next Letter of Recommendations that HM Treasury issues to each authority.[211]

152. Witnesses supported amending the remit letters to the Financial Conduct Authority and the Prudential Regulation Authority, to take account of climate change.[212] Following our query as to the delay behind issuing updated remit letters to the regulators, the Economic Secretary to the Treasury confirmed in November 2020 that the remit letters for the Financial Conduct Authority and the Prudential Regulation Authority would be updated, and that it was "an urgent priority for us to get this right".[213]

153. We therefore welcome the Chancellor of the Exchequer's recent letters to the Financial Conduct Authority[214] and to the Prudential Regulation Committee[215] amending their remits to "have regard to the government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions".

154. **The Prudential Regulation Authority and Financial Conduct Authority should move quickly to incorporate their revised remits to include climate change. We will continue to monitor their progress and ongoing approach to the risks arising from climate change.**

210 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, p 8
211 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, p 22
212 Qq232–234
213 Qq278–279
214 HM Treasury, Letter of Recommendations for the Financial Conduct Authority, 23 March 2021
215 HM Treasury, Letter of Recommendations for the Prudential Regulation Committee, 23 March 2021

Prudential risks and the capital regime

155. We heard evidence about the underlying prudential risks from financial firms' continued investment in fossil fuels and the associated 'stranded assets' risk. Stranded assets is a term for assets which turn out to be worth less than expected as a result of changes linked to the transition to a low-carbon economy.[216] The FCA's Handbook identifies prudential risks as "those that can reduce the adequacy of its financial resources, and as a result may adversely affect confidence in the financial system or prejudice consumers". It offers examples of key prudential risks: credit risk, market risk, liquidity risk, operational risk, insurance risk and group risk.[217]

156. In March 2020, the Governor of the Bank of England, Andrew Bailey, told us that the market was not accurately 'pricing in' climate risks.[218] The significance of this point is that the potential financial consequences of climate-related risks could create a systemic risk with implications for financial stability. The Bank of International Settlements (BIS) describes these risks as comprising:

- physical risks which affect the value of financial assets;
- transition risk which may result from the adjustment of asset prices towards a low-carbon economy; and
- liability risks arising from increased compensation paid out as a result of climate change.[219]

157. Mark Carney, former Governor of the Bank of England, wrote to us in early 2020, noting that:

> If commitments to net-zero are realised, many carbon-related assets will not be viable. At one extreme, the IPCC 1.5 degree report finds that no more than 349 Gt[220] of carbon can be emitted, assuming a target probability of 66% for limiting the rise in global temperatures to 1.5°C. In contrast, proven oil and gas reserves contain approximately 510 Gt of carbon, and coal reserves another 425 Gt[221]—meaning that the combustion of developed oil and gas reserves alone would exceed the budget for 1.5 degrees of warming. According to a frequently cited academic study,[222] 80% of the world's known coal reserves, 30% of oil, and 50% of gas reserves are unburnable if emissions are to be consistent with keeping temperature rises below 2 degrees.[223]

158. Positive Money, a research and campaign organisation, submitted evidence which suggests that financial loss from the drop in value of fossil fuels is already underway. It

216 Carbon Tracker, 'Stranded Assets', accessed 18 March 2021
217 Financial Conduct Authority, 'PRU 1.4.3', accessed 12 April 2021
218 Oral evidence taken on 4 March 2020, HC (2019–21) 122 Q62 ([Julie Marson, Andrew Bailey]
219 Bank of International Settlements, 'Research on climate-related risks and financial stability: An "epistemological break"?', accessed 12 April 2021
220 Gigatonnes (Gt)
221 Global Gas and Oil Network, Oil, Gas and The Climate: An analysis of Oil and Gas Industry Plans for Expansion and Compatibility with Global Emission Limits, December 2019, p 3
222 McGlade and Ekins, "The geographical distribution of fossil fuels unused when limiting global warming to 2C" Nature, vol 517, 187–190 (2015)
223 Bank of England, Letter from Governor to Chair regarding Climate Risk, February 2020, p.2

cited a report by Carbon Tracker[224] showing that the EU's largest five power generators had lost over 37% of their value between 2008 and 2013. It also drew our attention to projections by Mercer[225] suggesting that the annual returns from coal could decline by an amount in a range from 18 per cent to 74 per cent over the next 35 years.[226] Mark Carney also told us that market prices had begun to adjust, noting that "the transition away from coal has resulted in the combined market capitalisation of the top four US coal producers falling by over 99% since the end of 2010"[227] and cited research[228] which found that undeveloped reserves have a negative impact oil firms' value.

159. Ms Sarah Breedon, Executive Director for UK Deposit Takers Supervision at the Bank of England, acknowledged that the mispricing of the market was a "potentially systemic risk" to the UK financial system. She told us that this was why the Bank of England was stress testing the largest banks and insurers, in order to get visibility of how the value of real and financial assets might change "in order to drive different decisions today, so that the transition we see is an early and orderly one".[229]

160. Ms Breedon also told us that in order for the market to price climate risk correctly, two things were required: the market needed the right information and a better understanding of what might happen in terms of climate outcomes and climate policy. Ms Breedon considered that improved disclosure and scenario analysis would help resolve both of these issues.[230] She also pointed out that the volatile experience of asset prices during the pandemic "will have made financial institutions much more sensitised to the possibility of these risks and these stranded assets".[231]

161. However, while acknowledging the risk of stranded assets, some witnesses to the inquiry were unwilling to divest from fossil fuel assets, arguing that there is an appropriate investment strategy in oil and gas companies. Sandra Boss, representing BlackRock, told us that many of these oil and gas companies are:

> […] managing the transition very well. Those that are not managing it as well are increasingly finding their cost of capital goes up, so over time our clients' assets are ever so gradually shifting towards the superior performers on sustainability.[232]

162. Similarly, Steve Waygood, Chief Responsible Investment Officer at Aviva Investors, argued that investors would have more influence over companies that needed to transition, such as BP, by remaining invested: "The divestment calls to action are not calls to action at all. We need to use our voice and our vote, […] to power that transition by correcting the market".[233] Mr Waygood further noted that investors would only cease to fund oil and gas once the Government had made it a bad investment by "doing the transition plans towards net zero effectively, soon, and internalising the cost of capital where it should belong."[234]

224 A think tank that carries out analysis of the impact of the energy transition on capital markets and the potential investment in high-cost, carbon-intensive fossil fuels.
225 An asset management firm
226 Positive Money (DUE0062) submission
227 Bank of England, Letter from Governor to Chair regarding Climate Risk, February 2020, p.2
228 Atanasova and Schwartz, 'Stranded fossil fuel reserves and firm value', NBER Working Papers 26497 (2015)
229 Q136
230 Q135
231 Q135
232 Q231
233 Q231
234 Q231

163. Given these risks, some witnesses raised possible regulatory options around the capital regime, such as a "brown penalising factor" or a "green supporting factor". Simon Howard, Chief Executive of the UK Sustainable Investment and Finance Association, told the previous Committee in 2019 that "my bank members are increasingly warm to the idea that a change is being made to the capital regime to make it easier to lend to green stuff and to steer money away from brown stuff, but they all say that we need data, we need understanding and we need to prove that it is long-term sustainable."[235]

164. Dr Daniel Klier, Group Head of Sustainable Finance at HSBC, told us that "there is a very live discussion about anticipating the expected lower risk of green investments in some form of a green supporting factor. […] We all believe that green investments are lower risk. […]".[236] Dr Klier continued by saying that HSBC had analysed a very large population and found that outperformance versus the market was 10% over six months.[237]

165. Rather than supporting a brown penalising factor or a green supporting factor, Steve Waygood proposed a scaling factor that took into account the underlying asset's alignment with the Paris Agreement, particularly the 1.5C scenario.[238]

166. Mark Carney, former Governor of the Bank of England, commented in his February 2020 letter that where there was evidence that green assets were less risky, this could be factored into the internal models used by banks to calculate capital requirements. He cited Bank of England analysis which had found mortgages against energy-efficient properties were 18% less likely to default.[239] However, Mr Carney concluded that "absent explicit direction in its remit, the Bank would not advantage green lending in its risk-based supervision" as to do otherwise "would be to mix climate policy with prudential policy". He also noted that the Bank of England was "examining the case for a brown-penalising factor that introduces additional capital charges on polluting and potentially risky activities", but he observed that a lack of an accepted definition of 'brown', the possibility of activities transitioning from 'brown' to 'green', and the absence of data to measure the riskiness of an asset, remained impediments to implementing such a measure. Mr Carney added that the Bank of England was addressing the issue by contributing research to the Network on Greening the Financial System's[240] review of the quantification of risk differentials, and that the 2021 climate stress test would provide additional data.[241]

167. When we subsequently invited Sarah Breedon to comment on the option of a "brown penalising factor", she suggested that the Bank needed to gain visibility of assets through its proposed climate stress test before it could consider the matter.[242] The Economic Secretary to the Treasury told us that a "brown penalising factor" was not something he had considered specifically, and he suggested that what was needed, was to price in risk and have transparency around capital allocation. However, he added that all issues

235 Oral evidence taken on 8 October 2019 HC (2017–19) 2233, Q85, [Wes Streeting, Simon Howard]
236 Q75
237 Q76
238 Q209
239 Guin and Korhonen, Does energy efficiency predict mortgage performance?, Bank of England Staff Working Paper No.852, (2020)
240 Network of Central Banks and Supervisors for Greening the Financial System (NGFS) was established in December 2017 by eight central banks and supervisors, to strengthen the global response needed to meet the goals of the Paris agreement. The NGFS promotes best practices and conducts or commissions analytical work on green finance.
241 Bank of England, Letter from Governor to Chair regarding Climate Risk, February 2020, p.2
242 Q145

remained under review.[243]

168. ***We have heard differing evidence on whether there should be amendments to the capital regimes to promote net zero. In light of its new remit letter, the Bank of England must now explain its thinking, as to what measures it might consider appropriate for the capital regime to better accommodate the climate risk associated with different investments. It should set out its views on the options for amending the capital regimes to reflect its new remit, taking into account the potential interaction with the other aims of prudential policy.***

TCFD implementation and mainstreaming of green finance

169. In December 2015, the Financial Stability Board, an international body that monitors and makes recommendations about the global financial system, announced the establishment of a Task Force on Climate-related Financial Disclosures (TCFD).[244] Mark Carney, then FSB Chair, outlined what the FSB hoped the taskforce would achieve, telling the COP21 Paris Climate Change Conference that:

> The FSB is asking the Task Force on Climate-related Financial Disclosures to make recommendations for consistent company disclosures that will help financial market participants understand their climate-related risks. Access to high quality financial information will allow market participants and policymakers to understand and better manage those risks, which are likely to grow with time.[245]

170. The TCFD published its recommendations in June 2017 on voluntary climate-related financial disclosures across four areas: governance, strategy, risk management, and metrics and targets, alongside 11 recommended disclosures.[246] The TCFD also developed a tool to provide transparency around firms' assets and carbon emissions, in order to allow businesses and investors to make sustainable investment choices more easily and to hold firms accountable.

171. In its July 2019 *Green Finance Strategy*, the Government set out its expectation that all listed companies and large asset holders disclose in line with TCFD recommendations by 2022, and it established a joint taskforce with UK regulators to explore the most effective way to approach disclosure and the appropriateness of mandatory reporting.[247]

172. We heard evidence which suggested that, in the absence of a mandatory approach, there was an appetite in the industry for a wider and faster roll-out of TCFD-aligned disclosures. Sandra Boss, representing BlackRock, acknowledged that the Financial Conduct Authority had consulted on TCFD disclosures from premium listed issuers but noted that:

243 Q327
244 FSB to establish Task Force on Climate-related Financial Disclosures, Financial Stability Board, press release, 4 December 2015
245 FSB to establish Task Force on Climate-related Financial Disclosures, Financial Stability Board, press release, 4 December 2015
246 Task Force on Climate-related Financial Disclosures, Recommendations of the Taskforce on Climate-related Financial Disclosures Final Report, (June 2017), p iv
247 HM Treasury and Department for Business, Energy & Industrial Strategy, Green finance strategy; Transforming Finance for a Greener Future, July 2019, p 8

> We think it could go faster. We would like it to ask for them in 2021. We would like to see it making this a requirement for all listed companies, not just the premium listed, and we want to make sure it is a requirement, not just a soft "comply and explain".[248]

173. Similarly, Chris Cummings, Chief Executive Officer at the Investment Association, supported TCFD disclosures by listed companies and pointed out that the Investment Association had asked its members to insist that FTSE-listed investee companies report against TCFD; and he noted that "the majority of FTSE companies have now signed up to that."[249] Dr Daniel Klier, Group Head of Sustainable Finance at HSBC, agreed that two-thirds of the FTSE 100 provides some level of TCFD disclosure, but he noted that the level of disclosure was very inconsistent, with only 4% of companies following the full TCFD guidelines.[250]

174. We also heard evidence that disclosures would form part of witnesses' strategies for shareholder votes at company AGMs. Sandra Boss told us that BlackRock had asked companies to report using the TCFD framework:

> We identified 400 companies that we thought were the most carbon-intensive in our portfolio. […] Immediately, in this voting season, we did two things. First, we took 61 votes. It was 55 companies. We said, "These companies are not yet doing as much as we think they should be doing", and either we voted against directors or we voted in favour of shareholder proposals."[251]

175. Steve Waygood supported shareholder votes on TCFD, and he proposed that in addition "the TCFD report itself should be an advisory vote on a standing basis at company AGMs".[252] He believed that if the TCFD report were to be buried within wider reporting requirements, its impact might be limited.

176. In November 2020, the UK's Joint Government Regulator TCFD Taskforce published its interim report and roadmap setting out the Government's intention to introduce mandatory climate-related financial disclosure requirements across the UK economy by 2025. The report concluded that "given the urgency of the climate threat, a voluntary approach to climate-related financial disclosure may not be sufficient".[253]

177. The Taskforce roadmap sets out an indicative path illustrating how disclosures could cover seven categories of organisation over the next five years: listed commercial companies, UK-registered companies, banks and building societies, insurance companies, asset managers, life insurers and FCA-regulated pension schemes, and occupational schemes.[254] The roadmap also noted that initial steps have been made to introduce TCFD-aligned disclosures for certain listed companies, banks and building societies, insurance companies and occupational pension schemes.[255] It also points out that the Financial Conduct Authority is proposing further measures for asset managers, life insurers, and

248 Q234
249 Q68
250 Q68
251 Q222
252 Q235
253 HM Treasury, Interim Report UK Joint Government Regulator TCFD Taskforce, 9 November 2020, p 9, para 1.18
254 HM Treasury, Interim Report UK Joint Government Regulator TCFD Taskforce, 9 November 2020, p 11, para 2.2
255 HM Treasury, Interim Report UK Joint Government Regulator TCFD Taskforce, 9 November 2020, p 12, para 2.9

FCA-regulated pension schemes.[256]

178. Looking ahead, the Roadmap states that:

> In the coming years, UK Taskforce member organisations will take forward the strategies outlined in the Roadmap, subject to consultation and other statutory requirements. The UK Taskforce will continue to monitor the progress of the cross-sectoral implementation strategy to ensure that a coordinated approach is maintained. The Government will provide an update on progress in the 2022 refresh of the Green Finance Strategy.[257]

179. We took oral evidence from the Economic Secretary to the Treasury following the publication of the Roadmap. When we put it to him that the voluntary approach had not been working, he replied:

> We consulted considerably. We know there is a massive appetite. We made progress with large financial institutions. We are doing this in alignment with them but it is necessary to say that there is an expectation that we make progress here. There is staging around what a lot will do by 2023. It was a balance and there has not been significant dissent from this decision. It is seen as being in line with the direction in which we were moving, and others would criticise us for not doing this sooner. It is about getting that balance right.[258]

180. When the Economic Secretary was pressed on the differing timelines for implementation, he said:

> It is about the appropriateness of the rigidity of those timeframes, based on the size of businesses and sectors. […] but it is about saying what is accommodatable in different sectors in different timeframes. As I say, there is a conversation that has been going on to make sure that this is sustainable and achievable by a vast majority, and that is what has guided us.[259]

181. Steve Waygood, Chief Responsible Investment Officer at Aviva Investors, warned us that TCFD disclosure reporting might be insufficient:

> It does not require that we align our portfolios with net zero. We should require all financial institutions saying they support [the] Paris [accord] to do more than just the TCFD report. They need science-based targets, to set out what capital they will put towards financing the transition and to set out their engagement strategy."[260]

Dr Emily Shuckburgh, Director of Cambridge Zero at Cambridge University argued that TCFD reporting could be expanded to include Scope 3 emissions—tracing emissions through supply chains—which would be "influential in moving TCFD from something that just the larger firms are focused on and broadening it throughout the economy, in an efficient way".[261]

256 HM Treasury, Interim Report UK Joint Government Regulator TCFD Taskforce, 9 November 2020, p. 12 para 2.10
257 HM Treasury, A Roadmap towards mandatory climate-related disclosures, November 2020, p 9 , para 1.21
258 Q287
259 Q288
260 Q213
261 Q105

182. **The Government has moved from a voluntary to a mandatory approach for ensuring that firms make climate-related financial disclosures. But the process will be run to different timetables for different firms, across different regulators according to the Roadmap published by the Joint Government Regulator TCFD Taskforce. The Treasury, via the Taskforce, will need to play a key role in ensuring that pressure is maintained for a consistent and rapid implementation of these disclosures.**

183. **We also draw the Treasury's attention to evidence suggesting that the disclosure regime could be widened in scope, and that firms might usefully offer fuller disclosures.**

Sustainable taxonomy

184. In November 2020, the Chancellor confirmed that the UK would implement a green taxonomy—a common framework for determining which activities can be defined as environmentally sustainable. The UK taxonomy would "take the scientific metrics in the EU taxonomy as its basis" and a UK Green Technical Advisory Group would be established "to review these metrics to ensure they are right for the UK market".[262]

185. When asked on the timeline for the implementation of a green taxonomy, the Economic Secretary told us that:

> Regarding implementation of the green taxonomy, you will be aware that the government has made the necessary amendments to retained EU law to ensure that the UK has an effective framework for implementation of the taxonomy after the end of the EU exit transition period.[263] As part of that legislation, the government is required to publish the technical screening criteria for climate change adaptation and mitigation by the end of 2021, and for the remaining four environmental objectives by 2023. The Government will be launching a Green Technical Advisory Group in 2021 to advise, on an ongoing basis, on improvements that could be made to the taxonomy to better facilitate the UK's environmental goals.[264]

186. Several witnesses told us of the need for such a taxonomy. Huw Evans, Director General of the Association of British Insurers, told us that "we have to have a common language that we talk about when we talk about what options are available to customers".[265] Similarly, Sandra Boss, Global Head of Investment Stewardship at BlackRock, referencing the EU taxonomy, saw an opportunity for the UK to design its own solution and noted that a product taxonomy for ESG investing was very important.[266] Sheldon Mills, Interim Executive Director of Strategy and Competition of the FCA, outlined the importance of a taxonomy when thinking about the implementation of the TCFD. He noted that:

> It is not sufficient for us just to have a rule that says, "Disclose against these 11 principles under TCFD." … There is no common approach; there is no common taxonomy that underlies that and allows for comparability and

262 HM Treasury, "Chancellor sets out ambition for future of financial services", accessed 18 February 2021
263 The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (SI 2020/1385)
264 HM Treasury, Letter from Economic Secretary relating to Decarbonisation and Green Finance, 16 December 2020, para. 18
265 Q188
266 Q191

> so on. In terms of the EU sustainable work, even though we will not be applying that rule, because it will come into force after we have exited, we will naturally be working with Government as to how they think about the UK's approach to taxonomy and those sorts of issues.[267]

187. Chris Cummings, Chief Executive Officer at the Investment Association, did though point to work which the Investment Association had done on a "responsible investment framework". He explained that:

> The framework we have published goes beyond what we have seen in the European Union. It goes to the point I made about the UK's pre-eminence and our desire to be recognised as world leaders and build on that position. Ultimately, it is about bringing consistency of language and approach, so that investors can have real confidence that the money they are investing is being put to good use, in the way they would expect, and we can report back on that.[268]

188. As noted above, the UK is not alone in developing such a taxonomy. An EU taxonomy for sustainable activities was developed[269] and came into force on 12 July 2020, following the recommendation of the 'Commission action plan on financing sustainable growth'. The EU taxonomy establishes six environmental objectives, and tasks the Commission with establishing the actual list of environmentally sustainable activities through delegated acts. So far, the first delegated act on sustainable finance is due to be adopted in April 2021, and the taxonomy for the remaining environmental objectives should be established by the end of 2021 and will apply by end 2022. The first company reports and investor disclosures using the EU taxonomy are due at the start of 2022, covering the financial year 2021.[270]

189. The Economic Secretary to the Treasury wrote to the House of Commons European Scrutiny Committee in June 2020, recognising that the EU taxonomy will play an "important role in the development of Green Finance and in preventing greenwashing, an important UK objective"; and he confirmed the Government's commitment to "at least match the ambition of the objectives of the EU Sustainable Finance Action Plan".[271]

190. Inconsistencies may arise if different jurisdictions develop their own taxonomies independently. Mr Sheldon Mills, Interim Executive Director of Strategy and Competition at the FCA, told us that the Financial Conduct Authority was working with IOSCO [International Organisation of Securities Commissions] ahead of COP 26 to create "some sort of international framework which would allow for some sort of common taxonomy across these disclosures".[272] Anthony Raymond, General Counsel and Director of Legal Services, Policy and Advisory Directorate at the Pensions Regulator, agreed that "international parity, the taxonomy and that level playing field will be really important in the future".[273]

267 Q123
268 Q68
269 Commission Regulation (EU) No. 2020/852
270 European Commission, 'Implementing and delegated acts', accessed 19 February 2021
271 HM Treasury, EST letter to Sir William Cash MP, 28 May 2020
272 Q161
273 Q166

191. The Economic Secretary to the Treasury recognised the need for international consensus to avoid conflicting taxonomies, and he told us that in relation to the UK's taxonomy and climate-related disclosures there was "a lot of discussion in different jurisdictions about exactly what the taxonomy should be, and we need to be very clear about that so that the regulators are in a position to enforce that."[274] The Economic Secretary recognised that the UK's presidency of the G7 and COP 26 "gives us a real opportunity to set frameworks and work collaboratively to drive forward the clarity that we need".[275]

192. **A taxonomy is an important part of identifying what can be considered green investment, so the announcement of a UK taxonomy is welcome.** ***The Treasury and regulators should work at speed to ensure that there is a clear timetable and legislative pathway to deliver a UK taxonomy ahead of COP26 in November 2021. The UK can utilise the EU's taxonomy but can exceed it when it will assist the UK's goals. The UK should seize the opportunity presented by COP26 to use its own work on a taxonomy to push for greater international convergence.***

274 Q279
275 Q282

Conclusions and recommendations

The economic opportunities and costs of net zero

1. Although the Government has emphasised the need for a "green" recovery, we note it has not, except in limited circumstances, imposed green conditionality on the support it has provided during the coronavirus pandemic. Whilst it is clear that support schemes were required to be provided without delay the Treasury should set out why it did not include green conditionality for the Recovery Loan Scheme announced in the 2021 Budget. (Paragraph 23)

2. The Government has made bold claims that the economic recovery will be a green recovery. In order to achieve that, the Government needs to set out in its Net Zero Strategy who, at ministerial level, will be responsible for delivering net zero, coordinating the roles of different departments, and ensuring that the UK remains on track to meet its net zero target in a cost-effective way. (Paragraph 30)

3. In the Net Zero Review final report, the Government should set out what mechanisms it will put in place to integrate the net zero target within departments' spending review commitments, and how departments will be held to account should they fail to meet their targets. (Paragraph 35)

4. *The Chancellor should publish the Net Zero Strategy as soon as possible and should set out, in conjunction with the Net Zero Review final report, the principles upon which the UK will fund its transition to net zero carbon emissions by 2050.* (Paragraph 46)

5. *There are a number of different estimates of the cost of achieving net zero by 2050. However, the Government has not yet committed to its own cost estimates and should set these out as soon as possible. The Government should include in the Net Zero Review final report its own methodology on costs; and it should set out clearly where the uncertainties lie. The Treasury should also include a range of scenarios on how net zero might be achieved, and the associated cost for each scenario.* (Paragraph 47)

6. *The Treasury's Net Zero Review final report should include clear sectoral pathways towards decarbonisation and should address the key policy decisions as to the future of high carbon industries. Particular attention should be given to the potential regional impact of those decisions, and the Government should set out a framework and strategy for supporting those communities which will be most impacted by these changes. This is especially important given the Government's commitment to a Just Transition as part of the Paris Agreement.* (Paragraph 53)

Green finance to support green decarbonisation

7. The Government has recognised that private finance will need to play a key part in funding the transition to net zero. If it is to do so, the Government will need to provide long-term certainty in climate-related policy and must ensure that consistent policy signals are sent to investors. We are encouraged that the Government acknowledged these needs in the 2021 Budget. (Paragraph 59)

8. *We welcome the announcement in the 2021 Budget of a timetable for the issuance of the UK's first green sovereign bond or 'green gilt'. However, the UK is lagging behind other countries in the issuance of these green bonds. This runs the risk of holding back the development of a private sterling green bond market. Although concerns about the potential for green bonds to be a more expensive form of debt for the Government seem to have dissipated to a degree, the Government should none the less set out its tolerance, when issuing such bonds, for them to be more expensive than other forms of Government debt.* (Paragraph 66)

9. We note the new remit provided to the Monetary Policy Committee, which will allow it to rebalance its Corporate Bond Purchase Scheme to take account of the climate impact of the bonds it holds. We will continue to scrutinise this process and will examine how any changes are enacted, and how those changes impact on the other policy objectives and the independence of the Monetary Policy Committee. (Paragraph 74)

10. *We note the debate at the Productive Finance Working Group Steering Committee on retail access to the 'long term asset fund' (LTAF). There should be clarity about who will have access to the LTAF. The Chancellor and the financial regulators should set out the timeframe for the launch of the announced 'long term asset fund' to allow pension savers to invest in long-term projects. We would expect that such an LTAF would be focused on providing a net-zero compliant product.* (Paragraph 80)

11. *The Treasury should, as part of its review of Solvency II, consider reforms that could improve the funding of sustainable green infrastructure while maintaining the financial stability of insurers.* (Paragraph 84)

12. *In the proposed framework for the new UK Infrastructure Bank, the Chancellor should clarify its governance arrangements, how investment decisions will be made, and how it will ensure that it attracts sufficient private capital. In particular, it should clearly set out how the Bank will meet the Government's commitment to Net Zero. The Government should also set out how it will incorporate lessons learned from the former Green Investment Bank, and whether it intends that the UK Infrastructure Bank should be funded to offer a lending facility at a level similar to that offered by the European Investment Bank before the UK referendum on membership of the EU.* (Paragraph 95)

The role of consumers

13. *There is a high level of inertia amongst consumers around defined contribution pension fund choice, with most remaining in the 'default' fund. The Treasury has been robust in its view that default funds should not be required to move to more green alternatives, but at the same time maintains that consumers should not have to switch out of the default fund to invest sustainably. The Government should resolve this apparent contradiction. At present the Treasury is relying on a blend of disclosure, regulation and public investment to foster a transition towards more sustainable investment. For now, we support that approach, but the Treasury should report regularly on the proportion of pension holders in defined contribution pension schemes who remain in the default fund, and the extent to which those default funds are aligned with a path to Net Zero.* (Paragraph 108)

14. Consumers who hold defined benefits pensions have no choice as to how their assets are allocated. They rely upon their trustees. We note that previous attempts to get defined benefit schemes to acknowledge Environmental Social and Governance concerns have not been entirely successful. In its phased approach to implementing the regulations, the Pensions Regulator will need to consider how to reach smaller pension schemes. The draft regulations appear to exclude the smallest trust schemes. However, when their effects are aggregated, they may still have an impact on meeting the net zero target. *In responding to this Report, the Government should set out how these smaller funds will be encouraged to integrate climate governance and reporting requirements.* (Paragraph 117)

15. The financial services industry broadly accepts that 'greenwashing' is detrimental to good consumer outcomes and to the achievement of the net zero goal. *The Treasury must work with the FCA to ensure that the regulator has the appropriate remit, powers and priorities, and uses its powers, to prevent 'greenwashing' of financial products available to consumers.* (Paragraph 124)

16. Financial products should be clearly labelled to allow consumers to assess the relative climate impacts of products and to make choices accordingly. However, allowing every firm to create its own consumer sustainability labels may lead to inconsistencies and consumer confusion. *The Treasury and the Financial Conduct Authority should consult on the merits of making climate or carbon labels for consumer financial products mandatory, as a means to encourage innovation. The FCA should consult on how best to make such labels readily and widely understood.* (Paragraph 130)

17. We note the concerns expressed about indices, in that the most popular may be carbon-intensive, and those that purport to be green may have carbon-intensive constituents. The risk remains that many consumers are unaware of the carbon-intensity of the indices that their passive investments are tracking. *The Treasury and regulators should therefore ensure that all indices (whether conventional or climate-friendly) clearly set out the overall carbon footprint of the assets included within indices.* (Paragraph 137)

18. On the concerns around the constituents of indices described as 'green', we note the requirements under the Benchmarks Regulation, which should be used to help consumers make better choices. However, it is clear that in some cases the labels or descriptions of 'green' or 'climate-related' indices do not necessarily match legitimate consumer expectations of what they would commonly be understood to mean. *The Treasury and FCA should review the provisions in the legislative and regulatory framework and ensure that the labels and descriptions of indices accurately reflect their content, in line with consumer expectations.* (Paragraph 138)

19. The Government's Green Finance Strategy noted the need for innovation in green finance products and services, yet the evidence we have received suggests that the pace of innovation could be accelerated and that more could be done to encourage take-up. *The Financial Conduct Authority should seriously consider undertaking further "green fintech challenges" to encourage innovation. The regulator should also set out how it will tackle remaining regulatory barriers which discourage innovative 'green' financial products from coming to market. The Government and the regulators*

should work more closely with the Green Finance Institute to bring innovative ideas which will benefit consumers to the market. (Paragraph 149)

20. The Prudential Regulation Authority and Financial Conduct Authority should move quickly to incorporate their revised remits to include climate change. We will continue to monitor their progress and ongoing approach to the risks arising from climate change. (Paragraph 154)

21. *We have heard differing evidence on whether there should be amendments to the capital regimes to promote net zero. In light of its new remit letter, the Bank of England must now explain its thinking, as to what measures it might consider appropriate for the capital regime to better accommodate the climate risk associated with different investments. It should set out its views on the options for amending the capital regimes to reflect its new remit, taking into account the potential interaction with the other aims of prudential policy.* (Paragraph 168)

22. The Government has moved from a voluntary to a mandatory approach for ensuring that firms make climate-related financial disclosures. But the process will be run to different timetables for different firms, across different regulators according to the Roadmap published by the Joint Government Regulator TCFD Taskforce. The Treasury, via the Taskforce, will need to play a key role in ensuring that pressure is maintained for a consistent and rapid implementation of these disclosures. (Paragraph 182)

23. We also draw the Treasury's attention to evidence suggesting that the disclosure regime could be widened in scope, and that firms might usefully offer fuller disclosures. (Paragraph 183)

24. A taxonomy is an important part of identifying what can be considered green investment, so the announcement of a UK taxonomy is welcome. *The Treasury and regulators should work at speed to ensure that there is a clear timetable and legislative pathway to deliver a UK taxonomy ahead of COP26 in November 2021. The UK can utilise the EU's taxonomy but can exceed it when it will assist the UK's goals. The UK should seize the opportunity presented by COP26 to use its own work on a taxonomy to push for greater international convergence.* (Paragraph 192)

Formal minutes

Wednesday 14 April 2021

Members present:

Mel Stride, in the Chair

Rushanara Ali	Dame Angela Eagle
Harriett Baldwin	Julie Marson
Anthony Browne	Siobhain McDonagh
Felicity Buchan	Alison Thewliss

Draft Report (*Net zero and the Future of Green Finance*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 192 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Thirteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

[Adjourned till Monday 19 April at 3.00 pm.

Witnesses (2017–19 session)

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 2 July 2019

Chris Stark, Chief Executive, Committee on Climate Change; **Professor Nick Robins**, Professor in Practice for Sustainable Finance, Grantham Research Institute on Climate Change and the Environment, London School of Economics; and **Sagarika Chatterjee**, Director of Climate Change, Principles for Responsible Investment Q1–66

Wednesday 8 October 2019

Rachel Haworth, UK Policy Manager, ShareAction, **Bruce Davis**, Joint Managing Director, Abundance Investment, and **Simon Howard**, Chief Executive, UK Sustainable Investment and Finance Association Q67–115

Published written evidence (2017–19 session)

The following written evidence was received by the Treasury Committee in the previous Parliament (2017–19 session) and can be viewed on the inquiry publications page of the Committee's website.

1 Aberdeen Standard Investments (DUE0041)

2 ADS Group (DUE0021)

3 Airlines UK (DUE0051)

4 Aldersgate Group (DUE0018)

5 Anaerobic Digestion and Bioresources Association (DUE0014)

6 Anglian Water Services (DUE0038)

7 Anglo American (DUE0077)

8 Association for Decentralised Energy (DUE0033)

9 Association of British Insurers (DUE0070)

10 Aviva plc (DUE0048)

11 Bank of England (DUE0093)

12 Barclays (DUE0045)

13 Biofuelwatch (DUE0091)

14 Hartwell, Christopher A., Professor of Financial Systems Resilience, Bournemouth University (DUE0005)

15 Building Societies Association (DUE0084)

16 BYD UK Co Ltd (DUE0032)

17 Cadent (DUE0022)

18 Campaign for Better Transport (DUE0116)

19 Carbon Tracker Initiative (DUE0008)

20 CDP (DUE0086)

21 Centre for Energy Policy, University of Strathclyde (DUE0007)

22 ChargePoint (DUE0088)

23 Chemical Industries Association (DUE0043)

24 Christian Aid (DUE0031)

25 CIMA (DUE0098)

26 City of London Corporation (DUE0063)

27 ClientEarth (DUE0036)

28 Community Energy England (DUE0059)

29 Cyan Finance (DUE0054)

30 DNV GL (DUE0053)

31 Drax Group plc (DUE0050)

32 E.ON (DUE0055)

33 E3G (DUE0101)
34 Eaton (DUE0026)
35 EDF Energy (DUE0075)
36 Electricity North West Limited (DUE0024)
37 Energy and Utilities Alliance (DUE0049)
38 Energy Efficiency Infrastructure Group (DUE0083)
39 Energy Networks Association (DUE0066)
40 Energy UK (DUE0028)
41 Extinction Rebellion Oxford (DUE0030)
42 Finance & Leasing Association (DUE0108)
43 Financial Conduct Authority (DUE0099)
44 Glennmont Partners (DUE0016)
45 Global Witness (DUE0019)
46 Global Witness (DUE0064)
47 Grantham Research Institute on Climate Change and the Environment, London School of Economics (DUE0076)
48 Greater London Authority (DUE0109)
49 Green Alliance (DUE0039)
50 Greenpeace, Friends of the Earth, RSPB (DUE0027)
51 Highview Power (DUE0069)
52 HSBC Holdings (DUE0079)
53 Dunn, Hugo (DUE0087)
54 ICAEW (DUE0065)
55 Institute and Faculty of Actuaries (DUE0029)
56 Institute for Strategy, Resilience & Security, University College London (DUE0040)
57 The Independent Renewable Energy Generators Group (DUE0042)
58 ISS ESG (DUE0009)
59 Kingspan Insulation Ltd (DUE0025)
60 Liquid Gas UK (DUE0056)
61 Lloyd’s (DUE0103)
62 Loan Market Association (DUE0037)
63 London Stock Exchange Group (DUE0058)
64 Low Carbon (DUE0104)
65 Mineral Products Association (DUE0046)
66 Mirova/Natixis Investment Managers (DUE0106)
67 Scharf, Mr Daniel (DUE0003)
68 Haas, Ms Jill (DUE0006)
69 National Energy Action (DUE0035)

70 National Grid (DUE0100)

71 ODI (DUE0080)

72 Oil & Gas UK (DUE0034)

73 Oil Change International (DUE0061)

74 Orsted (DUE0073)

75 OVO Group (DUE0012)

76 Oxford Climate Lobby (DUE0013)

77 Oxford Sustainable Finance Programme, University of Oxford (DUE0060)

78 PIMFA (DUE0081)

79 Platform (DUE0010)

80 Plenitude (DUE0015)

81 Positive Money (DUE0062)

82 Principles for Responsible Investment (DUE0089)

83 Grubb, Professor Michael (DUE0114)

84 Jackson, Professor Tim (DUE0074)

85 Project Heather (DUE0082)

86 RBS (DUE0057)

87 ROCKWOOL Ltd (DUE0020)

88 Ruffer LLP (DUE0094)

89 Ryse Hydrogen (DUE0095)

90 ScottishPower (DUE0090)

91 SGN (DUE0067)

92 ShareAction (DUE0096)

93 Shell UK Ltd (DUE0047)

94 Solar Trade Association (DUE0092)

95 Storelectric Ltd (DUE0001)

96 Storelectric Ltd (DUE0002)

97 Sustainable Aviation (DUE0112)

98 Sustainable Energy Association (DUE0078)

99 The Confederation of British Industry (DUE0110)

100 The Crown Estate (DUE0115)

101 The Grantham Research Institute on Climate Change and the Environment (DUE0105)

102 The Investment Association (DUE0071)

103 The Mineral Wool Insulation Manufacturers Association (MIMA) (DUE0097)

104 The Natural History Museum (DUE0017)

105 UK Finance (DUE0011)

106 UK Green Building Council (DUE0023)

107 UK Power Networks (DUE0072)

108 UK Sustainable Investment and Finance Association (DUE0044)

109 Veolia (DUE0085)

110 WWF (DUE0068)

111 Zurich Insurance (DUE0052)

Witnesses (2019–21 session)

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 10 March 2020

Libby Peake, Head of Resource Policy, Green Alliance; **The Baroness Worthington**, Crossbench Life Peer; **Nick Molho**, Executive Director, Aldersgate Group; **The Lord Turner of Ecchinswell**, Chairman, Energy Transitions Commission Q1–59

Wednesday 9 September 2020

Professor Nick Robins, Professor in Practice for Sustainable Finance, Grantham Research Institute, LSE; **Dr Emily Shuckburgh OBE**, Director, Cambridge Zero, University of Cambridge; **Chris Cummings**, CEO, Investment Association; **Daniel Klier**, Group Head of Sustainable Finance, HSBC Q60–109

Wednesday 30 September 2020

Sheldon Mills, Interim Executive Director of Strategy and Competition, Financial Conduct Authority; **Sarah Breeden**, Executive Director for UK Deposit Takers Supervision, Prudential Regulation Authority; **Anthony Raymond**, General Counsel and Director of Legal Services, Policy and Advisory Directorate, The Pensions Regulator Q110–182

Wednesday 14 October 2020

Saker Nusseibeh, CEO, Federated Hermes International; **Sandra Boss**, Global Head of Investment Stewardship, BlackRock; **Huw Evans**, Director General, Association of British Insurers; **Steve Waygood**, Chief Responsible Investment Officer, Aviva Q183–235

Monday 16 November 2020

John Glen MP, Economic Secretary, HM Treasury; **Kemi Badenoch MP**, Exchequer Secretary, HM Treasury; **Niva Thiruchelvam**, Deputy Director, Head of Net Zero Review, Enterprise and Growth Unit, HM Treasury; **Richard Knox**, Director, Financial Services Group, HM Treasury Q236–330

Published written evidence (2019–21 session)

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

DEC numbers are generated by the evidence processing system and so may not be complete.

1 361 Community Energy (DEC0090)

2 ACTion on Climate for Teignbridge (DEC0106)

3 ADS Group (DEC0022)

4 Airlines UK (DEC0021)

5 Alstom UK & Ireland (DEC0116)

6 Anaerobic Digestion and Bioresources Association (ADBA) (DEC0056)

7 Angel Trains (DEC0049)

8 Anonymous (DEC0111)

9 Anonymous (DEC0105)

10 Anonymous (DEC0100)

11 Anonymous (DEC0008)

12 Arcadis (DEC0113)

13 Association of British Insurers (DEC0121)

14 Association of British Insurers (DEC0067)

15 Aviva (DEC0086)

16 Barclays (DEC0052)

17 Barraclough, Mr Chris (Property director, Hutton Estates Consultancy Limited) (DEC0025)

18 Baxi Heating UK (DEC0110)

19 BlackRock (DEC0123)

20 Budweiser Brewing Group (DEC0118)

21 CIA (DEC0018)

22 Campaign for Better Transport (DEC0082)

23 Chargepoint (DEC0012)

24 Chemical Industries Association (DEC0028)

25 ClientEarth (DEC0016)

26 Community Energy England (DEC0091)

27 Community Union (DEC0102)

28 Confederation of British Industry (DEC0015)

29 E.ON (DEC0030)

30 E3G (DEC0051)

31 EDF (DEC0010)

32 Energy Networks Association (DEC0098)

33 Energy UK (DEC0101)

34 Federated Hermes International (DEC0124)

35 Federation of Master Builders (DEC0044)

36 Finance & Leasing Association (DEC0029)

37 Glennmont Partners (DEC0027)

38 Global Warming Policy Foundation (DEC0009)

39 Global Witness (DEC0059)

40 Grantham Research Institute, LSE (DEC0117)

41 Greener practice (DEC0085)

42 Greenpeace UK (DEC0013)

43 Ground Source Heat Pump Association (GSHPA) (DEC0042)

44 HSBC (DEC0119)

45 HSBC Holdings plc (DEC0066)

46 Haringey Labour Climate Action (HLCA) (DEC0043)

47 Heat Pump Federation; and Ground Source Heat Pump Association (DEC0040)

48 Hydrogen Strategy Now campaign (DEC0047)

49 Icebreaker One (DEC0048)

50 Institution of Civil Engineers (DEC0019)

51 Institutional Investors Group on Climate Change (DEC0035)

52 Investment Association (DEC0074)

53 Kensa Group (DEC0064)

54 Kingdom (DEC0039)

55 Kingspan Insulation (DEC0078)

56 Knight, Cedric (DEC0092)

57 Legal and General Group Plc (DEC0120)

58 Liquid Gas UK (DEC0061)

59 Local Authority Pension Fund Forum (DEC0033)

60 Local Government Association (DEC0070)

61 London Councils (DEC0097)

62 London Sustainable Development Commission (DEC0063)

63 Mineral Products Association (DEC0036)

64 Mineral Wool Insulation Manufacturers Association (MIMA) (DEC0055)

65 Muswell Hill & Hornsey Friends of the Earth; Central Lancashire Friends of the Earth; East Dorset Friends of the Earth; Hammersmith & Fulham Friends of the Earth; Sheffield Friends of the Earth; Tottenham and Wood Green Friends of the Earth; Sustainable Thornbury; Transition Black Isle; Transition Highbury; and Transition Exmouth (DEC0108)

66 National Grid (DEC0080)

67 North Devon cycling campaign group (DEC0057)
68 Nuclear Industry Association (DEC0073)
69 OGUK (DEC0094)
70 Octopus Group (DEC0017)
71 ONeill, Dr Finola and Ms Zoe Griffiths (DEC0076)
72 Oxford Climate Lobby (DEC0007)
73 Peiser, Dr Benny (Director, Global Warming Policy Foundation) (DEC0122)
74 Pension and Lifetime Savings Association (DEC0002)
75 Positive Money (DEC0060)
76 Price, Dr Martin (DEC0032)
77 Responsible Finance (DEC0031)
78 Riggulsford, Mr Myc (DEC0096)
79 Royal Institute of British Architects (DEC0020)
80 SERA Devon (DEC0041)
81 SSE plc (DEC0046)
82 Scharf, Daniel (Consultant, PfT Planning) (DEC0006)
83 ScottishPower (DEC0112)
84 ShareAction (DEC0079)
85 Solar Trade Association (DEC0034)
86 Standard Life Aberdeen (DEC0095)
87 Storelectric Limited (DEC0005)
88 Sunswap (DEC0109)
89 Sustain: the alliance for better food and farming (DEC0072)
90 Sustainable Crediton (DEC0103)
91 Tetra Pak (DEC0075)
92 The Financial Conduct Authority (DEC0001)
93 UCL Institute for Innovation and Public Purpose (IIPP) (DEC0065)
94 UK Finance (DEC0068)
95 UK Sustainable Investment & Finance Association (DEC0093)
96 UK Women's Budget Group (DEC0011)
97 UKHospitality (DEC0062)
98 WWF UK (DEC0054)
99 Walker, Mrs Glynis (DEC0089)
100 Watson, John (DEC0104)
101 Westcott, Dr Gill (Co-Chair, Transition Exeter) (DEC0115)
102 Yarrow, Ms Stella; Ms Alexandra Munns; and 745 additional Extinction Rebellion activists (DEC0114)
103 Yeoh, Benjamin (DEC0037)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2019–21

Number	Title	Reference
1st	Appointment of Andrew Bailey as Governor of the Bank of England	HC 122
2nd	Economic impact of coronavirus: Gaps in support	HC 454
3rd	Appointment of Richard Hughes as the Chair of the Office for Budget Responsibility	HC 618
4th	Appointment of Jonathan Hall to the Financial Policy Committee	HC 621
5th	Reappointment of Andy Haldane to the Monetary Policy Committee	HC 620
6th	Reappointment of Professor Silvana Tenreyro to the Monetary Policy Committee	HC 619
7th	Appointment of Nikhil Rathi as Chief Executive of the Financial Conduct Authority	HC 622
8th	Economic impact of coronavirus: the challenges of recovery	HC 271
9th	The appointment of John Taylor to the Prudential Regulation Committee	HC 1132
10th	The appointment of Antony Jenkins to the Prudential Regulation Committee	HC 1157
11th	Economic impact of coronavirus: gaps in support and economic analysis	HC 882
12th	Tax after coronavirus	HC 664
1st Special	IT Failures in the financial services sector: Government and Regulators' Response to the Committee's Second Report of 2019	HC 114
2nd Special	Economic Crime: Consumer View: Government and Regulators' Responses to Committee's Third Report of Session 2019	HC 91
3rd Special	Economic impact of coronavirus: Gaps in support: Government Response to the Committee's Second Report of Session 2019–21	HC 662
4th Special	Economic impact of coronavirus: Gaps in support: Further Government Response	HC 749
5th Special	Economic impact of coronavirus: the challenges of recovery: Government Response to the Committee's Eighth Report of Session 2019–21	HC 999