

## **IIGCC response to UK Treasury Committee consultation: decarbonisation and green finance**

The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low-carbon future. IIGCC has more than 250 members, mainly pension funds and asset managers, across 16 countries, with over €33 trillion in assets under management.

Our mission is to mobilise capital for the low-carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change.

For more information visit [www.iigcc.org](http://www.iigcc.org) and [@iigccnews](https://twitter.com/iigccnews).

### **Summary of IIGCC position**

The outbreak of the COVID-19 pandemic has disrupted our lives and livelihoods, communities, and economies. We recognise the UK's immediate priorities must be intervening to save human lives and providing economic and financial relief to support the most vulnerable, stem the health crisis and curb economic disruption. At the same time, these efforts should not lock in high carbon pathways.

The UK is considering economic recovery measures to address the acute shock and impacts of the COVID-19 pandemic. With trillions of capital under their management, investors can support the recovery, noting this will require the efficient and equitable deployment of public and private capital in fiscally-challenging times. Institutional investors take a long-term view of value and returns and are therefore committed to assist policymakers in devising multi-year sustainable recovery efforts.

The topic is of significance to investors and the investor community as demonstrated by the number of investors which supported and engaged on a recent [letter to UK government](#) calling for a UK sustainable recovery aligned with the UK's target of net zero emissions by 2050. In addition, IIGCC together with global partners through the [Investor Agenda](#) – of which IIGCC is a founding partner – also launched a [global statement to governments](#) setting out ways to ensure the economic response to the pandemic is sustainable, helps address climate change and supports action to achieve net zero emissions.

With the right recovery policies in place, scaled up private investment could be channelled towards the development of new sustainable climate change mitigation and climate adaptation assets. Investors understand that accelerating the net zero emissions transition can create significant new employment and economic growth, along with other co-benefits such as energy security and clean air. At the same time, investors increasingly face physical and transitional risks from a rapidly warming planet that challenges their ability to deliver long-term returns for their beneficiaries. There is a growing need for investors to understand appropriate pricing for climate-related risk, since climate-related risks are critical to understanding the long-term value prospects of companies.

Any carbon-intensive companies that receive government bailouts, grants, loans, tax concessions and temporary equity purchases should be required to establish and enact climate change transition plans consistent with the Paris Agreement goals and achieving net zero emissions by 2050 in

exchange for this public support. In addition, IIGCC would welcome the government commencing the issuance of green gilts to kickstart a recovery that is aligned to achieving net zero ambitions.

In addition, investors would welcome clarity from HMT regarding whether the UK plans to implement measures that aim to align with the EU sustainable finance package, such as the sustainability-related disclosures in the financial services sector (SFDR), Non-Financial Reporting Directive, Benchmark Regulation, the Taxonomy, Markets in Financial Instruments Directive (MiFID) II and other changes that have been politically adopted. Investors would also welcome clarity regarding whether the UK plans to implement measures that align with policies such as the EU Emissions Trading System.

### **Terms of reference**

- **Should the Treasury’s support package to business distinguish between companies based on how much they pollute?**

IIGCC recommends that any carbon intensive companies that receive government bailouts, grants, loans, tax concessions and temporary equity purchases should be required to establish and enact net zero climate transition plans consistent with the goals of the Paris Agreement and achieving net zero emissions by 2050 in exchange for this public support. Investors would be interested to work closely with policymakers on the implementation of these transition plans.

Recovery plans that exacerbate climate change would expose investors and the economy to escalating financial, health and social risks in the coming years. In addition, locking in carbon intensive economic activities as part of recovery planning will only exacerbate climate risks and expose the economy to escalating shocks. The UK can accelerate the recovery by facilitating fresh investment and jobs in clean energy, which can often also be deployed cheaper and faster than incumbent carbon-intensive activities. Support for new sustainable infrastructure such as electrified transport systems, green industrial production and resilient community assets could also drive long-term clean jobs and growth, and support progress towards achieving the net zero target.

IIGCC’s Net Zero Investment Framework<sup>1</sup>, open for consultation until 25 September, provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net zero global emissions by 2050. This includes criteria for assessing forward looking alignment of companies with the 2050 net zero goal. This could be used to inform the screening criteria HMT apply to their support packages.

- **Should the Treasury be directly funding Green infrastructure as part of its Coronavirus spending package?**

Government spending on green infrastructure as part of a Coronavirus recovery package and the issuance of green gilts has the potential to kickstart a recovery that is aligned to achieving net zero ambitions. Economic recovery efforts are best directed to where job creation can be matched with net zero emissions energy, industrial, building and transport systems, along with climate resilience measures and other green infrastructure that will strengthen our societies and maintain natural

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<sup>1</sup> <https://www.iigcc.org/our-work/paris-aligned-investment-initiative/>

systems. For example, electrification of transport, renewable energy, decarbonising heat systems and energy efficient buildings.

Preparing for and responding to large-scale disruptions like pandemics and climate change also requires investment in scenario testing, assessments of corporate responses to risk, adaptation and a framework for a just transition. We need early preventative action from UK government to limit both economic costs and human suffering.

In addition, the UK government should ensure continuity of support for key low carbon technologies or activities that have been dependent on significant funding from EU public sources (e.g. European Investment Fund).

- **Are there any green related policies that the Treasury should change or commence due to the Coronavirus in order to facilitate the transition to meeting Net Zero?**

Investors would strongly welcome the UK government kick-starting the creation of a credible UK green bond and transition bond market, including commencing the issuance of green gilts. Institutional investors are ready to invest more in (certified) green gilts, matching the funding of net zero public projects with gilts would support HMT in working towards the net zero 2050 targets, making the UK even more attractive as a green financial destination and provide investors with investable green projects.

The development of new investment vehicles which can, for example, blend capital funds for emerging/developing markets' green infrastructure would be welcomed. In particular, some UK investors would welcome the creation of blended finance risk capital, working through Department for International Development/Foreign & Commonwealth Office and Department for Business Energy and Industrial Strategy to scale institutional investment into emerging and developing country green infrastructure investments.

As outlined in the question: *What is the consumer demand for 'green' financial products?* a green or sustainable classification in the UK for 'green' or 'sustainable' financial products would be of benefit for investors and support the environmental integrity of these products. IIGCC strongly recommends that any UK approach builds on international approaches and existing initiatives to support international convergence and harmonisation.

- **In which ways will the new economy post-Coronavirus allow the Government to change the way it finances meeting the Net Zero Target?**

The economic response from the UK government could help to deliver net zero emissions by restructuring the flow of direct and indirect subsidies and incentives. Redirecting finances away from legacy technologies, particularly fossil fuel based energy infrastructure and companies, by removing subsidies in the form of tax breaks (e.g. for North sea oil and gas producers), or tax freezes (e.g. on fuel duty), would mean more funds are available for sustainable recovery and transition activities. This should be undertaken in a phased and transparent approach and in a way that facilitates a just transition.

Consideration may be needed as to whether additional institutional mechanisms are required to stimulate and support the green investment market. For example, via a national green bank or other financial institutions which aim to attract private investment, or other approaches.

- **Are there outcomes from the Coronavirus that will enable the Treasury and HMRC to meet the Net Zero target more easily?**

Financial decisions made over the following 12 months will shape the UK economy for the next decade and beyond and determine whether we have built the foundations for a sustainable future and achievement of a net zero emissions target in the UK. A green recovery is the only option when the alternative means further carbon lock-in and fuelling the climate crisis for decades to come.

A UK economic recovery which prioritises 'business as usual' activity implies global temperature increases over 3 °C which would bring great future uncertainty, instability and damage to the climate as well as preventing progress made on achieving climate goals. The UK government's response to the coronavirus crisis will include 'once-in-a-generation' stimulus measures worth trillions. Choices made will therefore either accelerate or prevent progress towards the achievement of the net zero emissions target. Governments should avoid the prioritisation of risky, short-term emissions-intensive projects.

As mentioned above, carbon-intensive companies that receive government bailouts, grants, loans, tax concessions and temporary equity purchases should be required to establish and enact climate change transition plans consistent with the Paris Agreement goals and achieving net zero emissions by 2050 in exchange for this public support. The UK Government should ask companies to report on progress made on implementing these plans; disclosure aligned to the Task Force on Climate-related Financial Disclosures (TCFD) should also be asked for.

Embedding investor participation in recovery planning will also be important. The UK government may be more fiscally challenged after deploying immediate pandemic relief and unlocking private capital will therefore be critical to recovery. The UK government can drive more efficient and equitable outcomes by involving investors in the design of sustainable recovery plans.

IIGCC supports the findings and recommendations of the UK Committee on Climate Change's (CCC's) 2020 Progress report<sup>2</sup>, which assesses progress in reducing UK emissions and recommends Ministers turn the COVID-19 crisis into a defining moment in the fight against climate change. IIGCC also endorses the conclusions of the Committee on Climate Change's Costs and Benefits Advisory Group on Net Zero, as follows: "*the economic recovery from [COVID-19] gives the UK a chance to grow back in a way that is fit for the low-carbon future to which it aspires, and that can benefit from the industrial and economic developments that this future offers.*"<sup>3</sup>

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<sup>2</sup> <https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/>

<sup>3</sup> Page 16: <https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/>

## **The economic opportunity**

- **What economic costs and benefits does decarbonisation present for the UK?**

Decarbonisation presents the opportunity to boost the UK economy's competitiveness on the global stage.

The short-term costs of decarbonisation will be less than the costs that failing to decarbonise will bring, as other nations accelerate the decarbonisation of their economies and the physical risks associated with climate change become more acute in the UK (e.g. flooding, heat waves, extreme weather events). The UK labour market has the skills to contribute to national decarbonisation as well as the export of low carbon technologies and skills abroad, helping balance the trade deficit.

- **What benefits can a growth of the Green Finance sector deliver for the UK, and does the UK hold a competitive advantage in this space?**

The UK is an established centre for green finance, ensuring the UK maintains and enhances its leadership on green finance is vital to the UK's credibility as an international financial capital and to meet its legally binding net zero emissions target. IIGCC welcomes the UK's Green Finance Strategy which sets out how the UK government will accelerate the growth of green finance domestically and internationally<sup>4</sup>. As other jurisdictions further develop their capacities, there are opportunities for the UK to collaborate and enhance its leadership position on green finance such as issuing green gilts and enhanced incentives to invest in green projects. Strong green finance policies can achieve positive outcomes in the real economy and drive the UK's progress towards net zero emissions. The UK hosting COP26 in 2021 presents an opportunity to showcase the UK's leadership on green finance.

Key UK strengths include an established cluster of expertise and innovation stretching across the breadth of financial services, from institutions such as Lloyd's of London and the London Stock Exchange – ranked 8th globally and foremost amongst major exchanges for the quality of sustainability disclosure of its listed companies – to FinTech start-ups<sup>5</sup>. The renminbi- and rupee-denominated green bond issuances came from London in 2015, with the listing of 139 green bonds from 18 countries on the London Stock Exchange. London is ranked the world's top green finance centre for quality in Z/Yen's Global Green Finance Index 2019.<sup>6</sup> IIGCC supports the vision of Green Finance Institute in London to help build and promote the UK as a world-leading centre for green finance.

Additional UK strengths include the Bank of England's involvement in the Central Banks' and Supervisors' Network for Greening the Financial System (NGFS) and TCFD efforts (in September 2017 the UK became one of the first countries to formally endorse them). Investors also note the value of

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<sup>4</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/820284/190716\\_BEIS\\_Green\\_Finance\\_Strategy\\_Accessible\\_Final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf)

<sup>5</sup> <https://www.cbd.int/financial/gcf/uk-hubgreenfinance.pdf>

<sup>6</sup> Page 23: <https://www.cbd.int/financial/gcf/uk-hubgreenfinance.pdf>

consultations undertaken by the Financial Conduct Authority (FCA) such as the current consultation on proposals to improve climate change related financial disclosures by listed users<sup>7</sup>, the UK Department for Work and Pensions (DWP) consultation on aligning pension schemes with TCFD recommendations<sup>8</sup> and the DWP amendment to the UK Pension Schemes Bill, currently under consideration, which if passed in law would make climate change reporting mandatory for some pension schemes.

### **HMT's strategy**

- **What is HMT's current strategy, and approach to, UK decarbonisation, and is it fit for purpose?**

HMT's strategy should support the highest level of ambition for cutting greenhouse gas emissions and decarbonising the economy, aligned to the achievement of net zero emissions by 2050. IIGCC notes the findings of the UK CCC that progress towards future carbon budgets "remains off track"<sup>9</sup> and the London Sustainable Commission's comment that the "UK Government's efforts to channel finance into decarbonisation have stalled"<sup>10</sup>. Net Zero has been adopted as a key overall goal, but "much more will be required from Government in this Parliament"<sup>11</sup>.

IIGCC welcomes HMT's Net Zero Review, due to be published later this year, which is expected to signpost the necessary decarbonisation investments. Ideally, the final report of the Net Zero Review will include action-oriented recommendations with timelines for their implementation.

Decarbonisation policy needs to be carefully integrated into wider sectoral policy frameworks and complement other policy objectives. However, IIGCC is concerned that HMT's Net-Zero Review may fall short of this, since "detailed policy to decarbonise specific sectors"<sup>12</sup> is not included in the scope of the review. While sector-specific policy should be led by the relevant departments, it is worth highlighting the need for close collaboration, particularly when sector-specific barriers limit deployment of technologies which have cross-sectoral impacts.

In particular, sector-level clarity is needed on the UK's transition pathway to net zero emissions in order to mobilise investment at scale. This includes the emission reduction pathway pre-2030 and pre-2040 for key sectors, as well as key transition milestones including the timetable for key technology changes and phasing out fossil fuels for relevant activities (and direct and indirect fossil fuel subsidies for all activities). This would be accompanied by enhanced cross-economy measures (such as a strengthened carbon pricing instruments) and sector-specific measures (such as strengthened building codes and standards). Without this clarity, there is unlikely to be the strength

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<sup>7</sup> <https://www.fca.org.uk/publications/consultation-papers/cp20-3-proposals-enhance-climate-related-disclosures-listed-issuers-and-clarification-existing>

<sup>8</sup> <https://www.gov.uk/government/consultations/aligning-your-pension-scheme-with-the-tcfd-recommendations>

<sup>9</sup> Page 51: <https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/>

<sup>10</sup> [https://www.london.gov.uk/sites/default/files/green\\_finance\\_full\\_report\\_online.pdf](https://www.london.gov.uk/sites/default/files/green_finance_full_report_online.pdf)

<sup>11</sup> Page 164: <https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/>

<sup>12</sup> <https://www.gov.uk/government/publications/net-zero-review-terms-of-reference/hm-treasurys-review-into-funding-the-transition-to-a-net-zero-greenhouse-gas-economy-terms-of-reference>

of market signal needed to mobilise investors and attract the level of private finance (in the timeframe needed) to fund the UK's net zero ambitions Some investors also noted that clear signals from government that new sectors and/ or innovations will be sufficiently regulated would help to provide confidence to investors.

- **How does HMT work with the Clean Growth Strategy and government departments to support decarbonisation? Is this working well?**

Issues have been identified within our membership in relation to a need for improved coordination between HMT, other governmental departments, and the UK financial regulators. There is a need for enhanced dialogue and closer collaboration between institutions to maximise synergies as the UK accelerates both the net zero and green finance agenda. In particular, a coordinated approach to disclosure requirements for companies and investors is of key importance to IIGCC members.

- **How should HMT's approach evolve to ensure the Government meets the legally binding net-zero target?**

Please refer to the answer to the above question: *Are there any green related policies that the Treasury should change or commence due to the Coronavirus in order to facilitate the transition to meeting Net Zero?*

- **What role should the 2020 Comprehensive Spending Review play in UK decarbonisation? What projects or measures should receive additional funds through this process?**

IIGCC recommends that projects or measures which support environmental objectives and / or decarbonisation receive additional funding and support. These could include projects, for example, related to electrification of transport, renewable energy, decarbonising heat systems and energy efficient buildings. The 2020 Comprehensive Spending Review represents a key opportunity to support this.

IIGCC notes the UK CCC's recommendation that the UK Government should ensure that the next decade is a decade of delivery for climate ambition and building resilience. The forthcoming Spending Review provides an opportunity to reassess prioritisation of climate objectives within departments and ensure departments and local Governments are sufficiently resourced to deliver the change that is required<sup>13</sup>.

### **Green finance**

- **What role do UK financial services firms currently play in the decarbonisation of the economy (for example, through stewardship, capital allocation to green projects, green financial products)?**

The role UK financial services firms already play is significant but could be much larger if there was a more ambitious climate policy and green finance framework. Some examples of the policies needed

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<sup>13</sup> Page 165: <https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/>

are provided in the answer below regarding ‘*barriers (regulatory or otherwise) preventing financial services firms from delivering green finance or investing in ‘green’ assets?*’. As one example, better reporting from listed companies or companies with over 250 employees on their climate related risks and impacts, e.g. through mandatory reporting against TCFD for firms of an appropriate size which is being discussed in an FCA consultation, would inform investor engagement with companies regarding their transition planning and facilitate the allocation of capital to the ‘greenest’ firms and activities.

Investors are taking proactive action to drive the transition to net zero emissions including establishing how to align investment portfolios to net zero emissions, engaging with corporates to transition activities to net zero emissions and increasing financial flows to green investments.

70 IIGCC investor members (representing over \$15 trillion assets under management), many of which are UK asset managers and pension funds, are engaging in the IIGCC Paris Aligned Investment Initiative<sup>14</sup>. The initiative aims to help investors effectively implement their ambitions to reduce carbon emissions and increase investments in climate solutions in line with the Paris Agreement.

The first key output of the Paris Aligned Investment Initiative is the Net Zero Investment Framework. The Framework provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net zero global emissions by 2050. The Framework sets out a number of components for an effective net zero investment strategy, with recommendations on the key actions and methodologies that can be used to implement such a strategy.

UK asset managers and pension funds are also undertaking collective stewardship engagement activities – in addition to their one-to-one shareholder engagement dialogue with companies - via the Climate Action 100+<sup>15</sup> (CA100+) initiative, of which IIGCC is a co-founder of. CA100+ is an investor initiative launched in 2017 to ensure the world’s 160 largest corporate greenhouse gas emitters take necessary action on climate change. More than 450 investors with over \$40 trillion in assets collectively under management are engaging companies to curb emissions, improve governance and strengthen climate-related financial disclosures.

IIGCC welcomes the FCA’s focus on greenwashing in their Feedback Statement on Climate Change and Green Finance published in October 2019<sup>16</sup>.

- **What more can they do? What steps have UK banks, asset managers, and pension funds taken to ‘green’ their business models, investments strategies and balance sheets, taking in to account climate and transition risks?**

Please refer to the answer to the above question: *What role do UK financial services firms currently play in the decarbonisation of the economy (for example, through stewardship, capital allocation to green projects, green financial products)?*

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<sup>14</sup> <https://www.iigcc.org/our-work/paris-aligned-investment-initiative/>

<sup>15</sup> <https://climateaction100.wordpress.com/investors/>

<sup>16</sup> <https://www.fca.org.uk/publication/feedback/fs19-6.pdf>

- **Are there any barriers (regulatory or otherwise) preventing financial services firms from delivering green finance or investing in 'green' assets? What prudential risks does climate change pose?**

IIGCC would like to highlight the barriers listed below which can prevent financial services firms from delivering green finance or investing in 'green' assets:

- lack of sector-level clarity on the transition pathway to net zero emissions, to inform decision-making on where and when capital needs to be deployed in individual sectors in order to achieve net zero emissions
- stronger government role needed to scale up the pipeline of green investments, including a role for R&D support and risk financing
- regulatory and policy risk and ensuring stable policy incentives are in place. For example, investor confidence in the UK renewables market was undermined by the unexpected removal of Levy Exemption Certificates (LECs) for renewable energy in the Summer Budget 2015
- data/information asymmetry between companies and investors, linked to a lack of standardisation of disclosures and methodologies

At the same time, the UK government can supporting the scaling up of green finance by providing clarity on the sector-level transition pathway to net zero emissions, utilising economic recovery policies to provide additional sustainable investment opportunities and taking action to strengthen the UK's global leadership on the green finance agenda.

- **What is the Financial Conduct Authority and the Prudential Regulation Authority doing to support decarbonisation and a 'greening' of the financial system?**

IIGCC welcomes the FCA consultation on proposals to improve climate change related financial disclosures by listed issuers. IIGCC also supports the establishment of the Climate Financial Risk Forum (CFRF), jointly convened by the Prudential Regulation Authority (PRA) and FCA, to build capacity and share best practice, including the CFRF's recent report which helps guide the financial industry to approach and address climate-related financial risks<sup>17</sup>.

IIGCC also encourages action from regulators such as that recently undertaken by the UK's Financial Reporting Council (FRC) to support Paris Agreement-aligned pricing being used within financial statements. FRC recently sent out a reminder to Audit Committee Chairs and Financial Directors making it clear that financial statements must incorporate material climate risks (as part of existing financial accounting rules)<sup>18</sup> and, in February 2020, FRC set out their intention to review implementation of these requirements in coming months<sup>19</sup>.

We encourage the Bank of England (BoE), FCA, PRA and other UK financial regulators to maintain and increase momentum on the green finance agenda, to ensure that non-financial issues (such as climate change) are given a more equal priority with financial issues. For example, the BoE Climate

<sup>17</sup> <https://www.bankofengland.co.uk/climate-change/climate-financial-risk-forum>

<sup>18</sup> [https://www.frc.org.uk/getattachment/71345784-8f60-438b-a474-fc7c79ace9e3/Year-end-letter-\(003\).pdf](https://www.frc.org.uk/getattachment/71345784-8f60-438b-a474-fc7c79ace9e3/Year-end-letter-(003).pdf)

<sup>19</sup> [https://www.frc.org.uk/news/february-2020-\(1\)/frc-assesses-company-and-auditor-responses-to-clim](https://www.frc.org.uk/news/february-2020-(1)/frc-assesses-company-and-auditor-responses-to-clim)

Biennial Exploratory Scenario (climate stress tests) which will aim to explore the financial risks posed by climate change has been postponed until at least mid-2021. We would encourage that work on these types of green finance initiatives is accelerated.

- **What expectations do (and should) they place on regulated firms about their role in the transition through their policy and supervisory activities?**

IIGCC supports the implementation of the TCFD framework in the UK, as part of improved reporting on transition and physical climate risks and shifting investments away from high-carbon activities. This should include clear deadlines for ensuring all listed companies, companies with over 250 employees and large asset owners report on climate-related risks and opportunities, noting that asset owners will not be able to do this unless asset managers report as well. IIGCC supports the UK Government in its expectation of “all listed companies and large asset owners to be disclosing in line with TCFD recommendations by 2022”. In addition, IIGCC would support financial institutions (including asset owners) disclosing against TCFD, including how they are allocating funds to green investments.

- **What is the consumer demand for ‘green’ financial products?**

IIGCC welcomes the growth of green financial products as part of greening the UK’s financial services. Noting that consumer demand is already high, the integrity of this market would be supported by a consistent green or sustainable taxonomy, or other guidance which clarifies the expected attributes for these products. IIGCC strongly recommends that the UK approach build on international approaches and existing initiatives (e.g. Green Bond Principles) to support international convergence and harmonisation.

A UK market classification system (i.e. taxonomy) for ‘green’ or ‘sustainable’ financial products presents an opportunity for the UK to reinforce UK leadership on green finance, bring clarity to the sustainable investing product landscape and support better identification and understanding of financial products with sustainability characteristics.

- **Are there a range of accessible options available to consumers seeking to source ‘green’ financial products across the product suite (for example, mortgages, bonds, investment products, savings accounts, loans)?**

Please refer to the answer provided for the question above: *What is the consumer demand for ‘green’ financial products?*

- **Do certain instruments dominate the green finance landscape, and if so, why? Do accompanying documents for ‘green’ instruments (bonds, funds, etc) articulate why and how the composite holdings within that instrument are ‘green’? Are obligations placed upon listed companies, to report their carbon emissions, to inform fund composition?**

IIGCC supports enhanced disclosure of non-financial information from corporates and investors and other financial market participants. IIGCC recommends that corporate reporting of non-financial information covers the priority topics below:

- Reporting of scope 1, 2, and material scope 3 emissions, using a consistent and methodologically robust basis. It is acknowledged that it may be challenging for some companies to disclose scope 3 emissions immediately. Hence, additional time could be considered for some companies to start reporting their scope 3 emissions.
- Reporting of performance against short-, medium-, and long-term emission reduction targets and/or measures towards those targets, with a minimum set of sector-specific indicators specified (to support improved comparability and consistency of disclosed information). Guidance for corporate targets could draw on sectoral methodologies developed through the Science Based Targets Initiative as well as Carbon Performance analysis developed by the investor led Transition Pathway Initiative.
- Details of oversight structures and remuneration linked to short-term climate and sustainability targets.
- A strengthening of corporate reporting on physical climate risk management, including results of risk identification analysis and any mitigation actions taken. The European Bank for Reconstruction and Development and the Global Commission on Adaptation gathered a group of financial institutions to make recommendations for expanding TCFD to better address physical climate risks and opportunities. We commend this report and its recommendations: Advancing TCFD Guidance on 30 Physical Climate Risks and Opportunities<sup>20</sup>.

Investors support consistency of reporting standards and obligations for companies and financial market participants as a way to address the data asymmetry issues between companies and investors. Any reporting of non-financial information required of investors will be enhanced if these requirements are consistent with the disclosure requirements of investee companies.

With respect to companies, disclosure of non-financial information categories (listed above) should be required of all companies with over 250 employees, smaller companies where they are in material sectors, and all companies listed under the UK stock exchange. To support the assessment of whether smaller companies are operating in material sectors, the work of IIGCC's Paris Aligned Investment Initiative may be helpful.

Investors would seek to encourage as much consistency in disclosure requirements as possible across jurisdictions. Any future disclosure standards in the UK should seek to reinforce existing disclosure standards globally, so as to limit or avoid country divergence and support international convergence. IIGCC members report the following global reporting standards for companies as most helpful: TCFD, Sustainability Accounting Standards Board, Global Reporting Initiative, and the International Integrated Reporting Framework.

IIGCC would welcome the opportunity to discuss our response in more detail with any members of the UK Treasury Committee and team. Please contact, Emelia Holdaway, IIGCC Policy Programme Director at [eholdaway@iigcc.org](mailto:eholdaway@iigcc.org).

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<sup>20</sup> Available at: <https://www.physicalclimaterisk.com/index.html>