ICAEW
REPRESENTATION 53/22

UPDATE TO GREEN FINANCE STRATEGY: CALL FOR EVIDENCE

Issued 22 June 2022

ICAEW welcomes the opportunity to comment on the Update to Green Finance Strategy: call for evidence published by Department for Business, Energy and Industrial Strategy on 12 May 2022, a copy of which is available from this link.

For questions on this response please contact our Sustainability team at representations@icaew.com quoting REP 53/22.

This ICAEW response of 22 June 2022 reflects consultation with the Sustainability Committee. Sustainability describes a world of thriving economies and just societies based on what nature can afford. Members in practice, in business and private individuals all have a role to play if sustainability goals are to be met. The work being undertaken by ICAEW in this area is to change behaviour to drive sustainable outcomes.

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ICAEW
Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

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Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

MAIN POINTS

1. ICAEW are committed to a fair and just transition, and have campaigned for this consistently. As energy prices across the world continue to rise and consumers are restricted, it is tempting for Governments and policymakers to simply abandon green energy policies and drill for further use of fossil fuels. The environmental damage done by increasing the use of fossil fuels during this period would result in large long-term damage from its impacts, such as flooding, draughts and climate change which will wreak heavier damage on consumers. The UK Government should commit to minimising the use of fossil fuels, and find other ways to minimise the impact on the public of rising prices.
2. As this is a Green Finance Strategy, the Government should commit to nature as well as climate. Separating climate from nature is a false distinction, and should not be done. The loss of biodiversity needs to be emphasised and recognised as a key risk. Whilst the Government are leading on climate change, more work can be done on biodiversity loss and the effect this has. As we will mention throughout this response, the skills and knowledge to combat biodiversity loss will need to be enhanced to achieve the aims. The ground-breaking Dasgupta review was the first of its kind in the G7, and the UK Government should be congratulated on this. However, it is time for the recommendations of the review to be put into policy. Following a sustainable path with climate and biodiversity preservation at its core will demand great ambition, co-ordination and political will, and should not be underestimated.
3. To achieve the strategy, education and skills training will be vitally important. There is a significant skills gap to be closed if net zero is to be achieved, and major investment will be needed to plug the shortage. Knowledge must also be incorporated into this training, to ensure skills already present in the workforce can be realigned to those needed for the strategy to succeed.
4. Culture in the Financial Services sector will need to be realigned to meet the needs of the strategy. Incentives in place are currently short-term, and will need to be more long-term orientated, and present across all areas of the sector, for success to occur.

ANSWERS TO SPECIFIC QUESTIONS

Q1. What are the key characteristics of a leading global centre for green finance?

5. Climate change and loss of nature is, and will continue to be, the biggest challenge facing the future of humanity, and one which all of us – business, the professions, policymakers and civil society - have a responsibility to take action on.
6. Meeting these challenges requires a just transition to a net zero, nature positive economy as envisaged in the 17 UN Sustainable Development Goals (SDGs).
7. Achieving this will require substantial extra investment, facilitated via leading global green finance centres. Green financial centres must be able to allocate the volumes of capital needed to achieve these goals seamlessly and successfully.,. The need to mobilise private capital effectively and in significant volumes is a key part to achieving this goal.
8. investment is key as described above, but this isn't the only characteristic needed. Finance needs to be 'green-ed' in the sense that a leading centre will discourage sources of 'brown' finance and also limit its supply, whilst also creating incentives for green finance to flourish. Likewise, regulation and taxonomies to discourage, spot and eradicate instances of greenwashing will need to be in place.
9. Significant, globally focused, financial centres already exist across the world, including in London, where providers of capital are matched with those looking to raise money in order to create growth and prosperity. However, there are still barriers that exist precluding many market participants from securing sustainable finance. Illiquid markets, lack of investor awareness and engagement, a lack of knowledge, a potential lack of capacity within regulators and ineffective disclosure and reporting of products all add to the barriers surrounding the progress of green finance.

Q2. Do you consider the UK's green finance regulatory framework to be world-class?

10. No country is currently 'world class' on green finance and regulation. It could be dangerous to give a false sense of progress given where the planet is today. Much of the UK frameworks are voluntary, and not yet mandatory. The Taskforce on Climate-Related Disclosures (TCFD) is welcome, but this is focused on the impact climate has on a company - not the impact a company has on climate. TCFD is also being implemented in other countries per the G7: G7 backs making climate risk disclosure mandatory | Reuters The SEC, EU, Malaysia, Singapore and Switzerland are also developing their own sustainable finance taxonomies. The various approaches are not "better" or "worse" but depend on culture and geographic/industry footprints. The regulatory footprint must also consider nature loss, with the UKs rather narrow focus on climate only, this may skew policy unfairly at the loss of nature.
11. The UK Government and the Treasury have put significant work into developing the UK as a green finance centre, alongside growing, developing and evolving its regulatory framework. It is clear regulators will play a key role in meeting SDG and net zero targets, and the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) have had their remits revised to include climate change. The FCA have made clear they are committed to adopting the ISSB standards towards a common international corporate reporting standard for sustainability disclosures, which will be the hallmark of a world- leading green finance centre. Furthermore, the Government have endorsed TCFD recommendations around 11 recommended climate-related disclosure requirements, showing their commitment to a well-regulated market. Further to this, the UK Government have made clear, in the Green Finance Road Map, that it will go beyond the ISSB framework to require companies to report on their impacts, and the ICAEW is wholly supportive of this.

Q3. To what extent does the UK's private and public sectors have appropriate skills/capacity to attract international green finance flows?

12. The UK workforce will need the relevant skill base to ensure the Government is able to position the UK as a leading green finance centre. This will take a continuing commitment and investment to ensure the right skills are in place and are evolving.
13. A report from the Green Alliance stated every major sector in the UK needs to close a significant skills gap to enable them to reach net zero. The sectors with the most pressing emissions reductions by 2030 face the most immediate skills shortages, including housing and transport. Along with land use, these sectors already face shortages to deliver the status quo, let alone progress on net zero. Eighty per cent of the current workforce will still be active in 2030. As well as attracting new green entrants there should be a focus on transferring existing skills and retraining for the green economy.
14. The Government should ensure the uptake of knowledge is taken into consideration, alongside skills, when formulating their strategy. The Financial Services Skills Commission (FSSC) conducted research which stated the net zero transition will not require an abundance of new skills, and skills needed are already represented within the FSSC's Future Skills framework for digital skills: innovation, collaboration, adaptability, communication.
15. Therefore, it appears the skills base needed is largely already present, and with some flexibility will be able to adapt to the challenge of providing a net zero economy and the creation of a world-class green finance centre. However, the knowledge angle needs to be explored further to ensure these existing skills are successfully transformed, and expertise in professional judgement and scepticism is built upon.
16. The Government must also think about at what level in the hierarchy, from Board down to junior level, these skills should be present. Is it across entire organisations, or at the upper levels? Likewise, different roles and subsets of the financial services industry will be needed. Clearly, different education and training is needed for those levels and roles. However for this education and skills build-up to be successful, capacity needs to be built to ensure sufficient and identifiable dialogue between finance and sustainability professionals.

17. The flagship Government policy in this session of Parliament, Levelling Up, can also be aided by the green finance strategy. By ensuring the requisite skills (which are largely cross-transferable) and knowledge to create a net zero economy are present across the country, not just in the South-East, a key levelling up aim can be achieved.
18. The culture and skills training is not to be underestimated. Government must consider that the world has had access to multiple reports and datasets for decades, but little has changed regarding the planet's emissions trajectory. In fact, they are increasing in a post-covid world. Therefore, the "old way" of reporting and assessing finance needs to be supplemented considerably, and many of the gaps the ICAEW see today are behavioural and cultural in nature.
19. Culture will be hugely important in this context, and the incentives within the Financial Services industry are currently at odds with what the Government is trying to achieve with its Green Finance Strategy. For this to succeed, the industry needs to take a long-term view, instead of a short-term view based on profitability. The long-term outlook may result in short-term damage, but will ensure long-term gains.
20. For this to succeed, all areas of the sector need to be on-board. The sector traditionally rewards objectives and measures, therefore long-term views need to be written into objectives. This may mean perverse results and objectives occur in the shorter term, which means experimentation, instead of abandonment, will be key. If objective setting does go wrong, the sector must keep trying and be alive to other indicators.
21. This ‘new’ culture must be embedded, and it is an opportunity for firms in the sector to motivate their staff, if they know they are having a positive impact on the planet. The role of companies will be redefined, not simply to make money, but to be nature and climate positive. This meaning will need to be translated into a purpose with principles and decision-making criteria, and as habits change.

Q4. What are the UK’s comparative strengths and weaknesses in its green finance offering compared to other international financial centres? What are these are for:

a. Asset management

22. Green finance is estimated to be a $2tn a year market (still less than 1% of the total of all financial markets), with private investors expected to provide 85% of the financing of green projects, the asset management industry will be at the front and centre of the strategy.
23. Going forward, it must be ensured that money managers and financial stewards have the freedom to explore new opportunities in green finance, and indeed this is already being promoted via the FCA’s sandbox.

b. Capital markets

24. The UK is recognised as a worldwide leader on climate action, and its capital markets must follow suit to enable the greening of the economy and ensure the reversal of nature loss. Mobilising significant quantities of private capital will be crucial in achieving the transition to a low-carbon economy, therefore sustainable markets are key. A developed capital markets ecosystem around green finance will allow investors to take on climate change whilst ensuring long-term profitability.
25. The UK already benefits from strengths as a leading financial centre, as well as a very deep and capable number of green finance institutions and people. There has been marked sign of innovation in the field, with green bonds, pensions, loans and crowdfunding vehicles initiated.
26. The UK is working towards strengthening its position within capital markets, by consulting on its prospectus regime. By ensuring, when listing, the information a company must publish is not overly burdensome, the Government is looking to make its markets appear attractive and open for business.
27. However, to ensure progress is maintained, Government and industry must ensure they work together to ensure the green finance strategy is fit for purpose and meets the needs of all stakeholders.

c. *Banking*

28. The highest-ranked banks in the world for cross border lending have a presence in London, albeit not necessarily located there, showing the importance and prestige of the industry.
29. Further key strengths of the industry include an established cluster of innovation and expertise. The ability of the industry to offer and aggregate all of the services the financial services industry needs is unparalleled.

d. *Insurance*

30. The UK has an established Insurance sector, proven to be innovative and dynamic, led by the centuries old and market-leading Lloyds of London centre. Use of the English language, the major international language of Business, and the English common legal system, know for fairness, stability ad transparency, are significant advantages for the industry.

e. *Professional services*

31. Professional services firms and individuals, such as Chartered Accountants, will have a vital role to play in ensuring the success of the strategy. There is a deep pool of professional accountants present in the UK, with the requisite experience and skillset to more than play their part in delivery.
32. A strategy as complex and technical as this will need thorough oversight and governance, to enable the various workstreams to stay on track and working towards agreed metrics.
33. Greening the economy will take trillions of pounds of investment to achieve, and therefore an immense budgetary exercise will need to occur. However this investment will be miniscule in comparison to the potential economic damage of inaction in this area. We will need professionals who are competent in creating, managing and explaining vast and complex budgets to decision-makers, which will in turn create new industries and job profiles, adding to national growth.
34. As the strategy progresses, regular audits and accountability will need to occur. This will provide an independent opinion on the financial position of the strategy, as well as recommendations for operational and efficiency gains.
35. All the skills required above are possessed by Chartered Accountants, meaning they will be a key and necessary element to successful implementation of the strategy. If no further action to green the economy occurs, a crisis will persist, and therefore we must ensure we are resilient to what this may look like. Furthermore, the flagship qualification, the ACA, has already integrated these principles regarding environmental risk into its learning. The Government must ensure all this is recognised.
36. To further strengthen the role of professional services in the sector, data and transparency as well as financial disclosure metrics must be strengthened and aligned. ICAEW note that regulators and standard setters across the world, such as the ISSB, SEC an EFRAG, are producing standards. We recommend that the UK Government continues to push for a single, aligned, global baseline.

f. *Fintech*

37. The UK is a global hub for Fintech start-ups, who are responsible for pioneering the financial models of tomorrow, with the Chancellor, Rishi Sunak, promising to help Fintech's scale up and enhance the digital competitiveness of the sector. There are plans to lead the digitisation of finance with a central bank digital currency taskforce, and the opening of a Centre for Finance, Innovation and Technology to boost growth.

Q5. How can the UK government measure progress towards becoming a leading global centre for green finance?

38. The green finance strategy lays out the Governments plan and ambitions towards 'greening' the financial system. This plan contains three key stages:

- Ensuring decision-useful information on sustainability is available to decision-makers;
- Making the information a day-to-day part of business and financial decisions;
- Shifting financial flows to align with a net-zero and nature-positive economy.

39. The aim will be for these stages to be embedded across the economy and decision-making areas.
40. As discussed in Q3, the skills to ensure a net zero economy are already in place, and the knowledge that will enable these skills must follow. ICAEW, as a training provider, can ensure this knowledge is gained by the future workforce. The core accountancy qualification the ICAEW provides, the ACA, already embeds sustainability knowledge as a core principle. Furthermore, the ICAEW is developing a dedicated Sustainability certificate, to provide a focus on the most prominent skills and knowledge that will be needed going forward.
41. The Government should ensure they are highlighting these important qualifications to build and maintain the skill base. However as this is a rapidly evolving field, it will be challenging to monitor progress.

Q6. What areas for potential growth – for example emerging financial products and instruments – are there in green finance for the UK financial services sector?

42. It is widely accepted that green finance is the next major area of growth in financial services. In fact, the area has been growing for over a decade now, even without the prescribed infrastructure and defined metrics other areas of investment have. However, after the 2015 Paris agreement, the sector must take a new leap to meet ambitions set.
43. Market investors are diversifying portfolios away from climate-risk and carbon-heavy investment, understanding that the threat from climate change is more than just good risk management, but beneficial to all business operations.
44. Green finance is a huge opportunity and ensuring that capital finances long-term projects to decarbonise the economy, prospects for global growth and a sustainable recovery will increase. However, whilst there is a growing demand for green finance, the sector still lacks common standards and toolkits. Universal standards for defining what types of investments qualify to avoid ‘greenwashing’ and a framework for rating these investments must be developed for growth to continue uninhibited.

Q7. How can the UK support a financial system that leverages private investment to meet the UK’s climate and environmental objectives?

45. The Government needs to address the lack of a clear definition of green finance which makes it difficult to monitor, report and verify green finance flows and ensure that interventions are effective and equitable. Doing this also requires a clear picture of the different ways in which private capital can be mobilised, be it direct mobilisation, intermediate mobilisation, incentivisation, indirect mobilisation or a catalytic effect.
46. ICAEW’s response to the Infrastructure Finance Review in 2019 included several recommendations on how to encourage greater private sector investment in infrastructure, which would equally apply to green infrastructure and to other investments required to deliver net zero and to improve the environment and environmental resilience across the UK.
47. A lack of a long-term view and traditional ways of viewing risk appetite at financial institutions are often the blockers to sustainable investment. This is because the maturity of financing is often 2 - 6 years, whereas the more severe climate could take longer to play out. Also, many sustainable solutions and companies are new and innovative, and therefore lack a track record, which leads to lack of sustainable investment. Often, capital looks for the companies and projects which meet traditional risk appetite metrics and sustainability objectives, then pricing/competition dynamics kick in.
48. We suggest the Government can price carbon via policy, make energy grid data openly available so emissions can be estimated based on industry data (i.e., similar to house energy

which is used to measure emissions related to mortgages in Netherlands by financial institutions), and increase transparency, including the disclosure of both the positive and negative impacts of a financial instrument.

49. Government can also consider its own financing and purchasing to support these objectives.

Q8. How can the UK support a financial system that leverages private investment to meet the objectives of the British Energy Security Strategy, including in areas such as nuclear, hydrogen, carbon capture and storage and domestic oil and gas production, to reduce our reliance on imported fossil fuels as part of a smooth energy transition?

50. To achieve such a system, the financial system should assess and disclose its impacts and dependencies on the four capitals (natural, social, human and produced capital). And the system should also assess the contribution of the activities they are funding to achieving the British energy targets.

51. There is a huge role for the state to play in creating the demand for new technologies and new sources of renewable and clean energy. It can do this by, for example, putting in place purchase agreements for the new technology that provides some off the funding and removes much of the uncertainty so that private capital will flow in and take the risk. The state can, in doing this, create networks of research and development and provide subsidies and tax breaks for R&D.

52. When assessing these, the financial sector will have better insights into the potential risks and opportunities for their or their clients' contributions towards achieving UK energy targets. And, based on those insights they will be able to direct private investments towards the activities that have the best outcomes for the strategy. Finally, the sector will be better positioned to invest in the right activities if governments aligns their funding with that of the sector.

Q9. What barriers are there to unlocking private investment to support the UK's energy security, climate and environmental objectives?

53. The first barrier is the knowledge gap. If assessments/investment cases which feature environmental objectives as a prominent factor are not made, there are no insights in how investments are supporting net zero carbon and nature positiveoutcomes. Also, it is quite likely that the UK will fund incentives (subsidies, taxes, etc.) that have negative consequences for environmental and nature objectives. This study points at fossil fuel support as one of the biggest environmental harmful subsidies globally.

Q10. How can the UK government assess and measure progress toward financing the UK's energy security, climate and environmental objectives?

54. Using a natural capital approach, which puts the reversal of nature loss at its core, and by implementing the SEEA framework from the UN, will help to achieve this aim. A statistical department will help to assess and measure progress. As this needs a whole-of-society-approach, it would be beneficial if the Government creates an overview of progress by different sectors of society, and shows where financing is sufficient and where it is lacking and needs further support, either via public or private means..

Q11. How can the UK best facilitate greater private investment into climate change adaptation and resilience activities?

Direct investment that unlocks opportunities for private sector investment.

55. Direct investment has the power to unlock private sector investment. An example might be to fund or part-fund hydrogen fuel facilities at UK ports to encourage and support private sector investment in hydrogen boats and ships. Another might be to fund pump storage and/or battery facilities to support greater investment in wind, tide and solar than would otherwise be possible. Matched funding could also help, for example by part-funding insulation and heat

pump installation – especially if combined with well-structured regulatory mechanisms (see below).

As a lead investor in projects through the UK Infrastructure Bank, British Business Bank and UK Government Investments.

56. The government has a major role to play in acting as a lead or 'anchor' investor in green infrastructure projects through the UK Infrastructure Bank, British Business Bank and UK Government Investments. Providing debt and (in some circumstances) equity finance for major projects that advance the achievement of net zero or enhance the environment. And by not providing finance to projects that are detrimental to these objectives

As guarantor

57. Government can also support private sector investment through the targeted use of financial guarantees, contracts-for-difference or 'back-stop' insurance as appropriate to facilitate net zero and environmental projects, ranging from waste recycling plants through to large nuclear power stations for example. This would support projects where risks would otherwise be too great to be acceptable at a reasonable cost, while still ensuring that private sector funders bear an appropriate level of risk by not providing blanket guarantees.

Tax and other incentives.

58. Tax and other incentives can also be used in some circumstances, although it is important to ensure they are well targeted and are monitored to ensure they are actually driving incremental investment.

Through well-structured regulation.

59. Well-structured regulation is also very important, such as the requirement to end the manufacture and sale of petrol and diesel cars in the UK by 2030 or in the provision of price assurance for long-term energy and transport assets. Proportionate regulations with reasonable lead times for changes are one of the best ways of driving private sector investment. Confidence in the stability of regulatory changes once confirmed is critical, highlighting the importance of sufficient consultation beforehand and (ideally) cross-party support given the timescales involved.
60. One example is around the regulatory arrangements in the energy market, for example a straightforward mechanism for charging individual buildings modestly higher per unit electricity and gas prices over a (for example) ten- to twenty-year period in return for making those houses energy efficient. This would enable the government to share in a portion of the energy savings made by homes benefiting from a future successor to the Green Home Grants scheme, reducing the net overall cost and making it easier for householders wanting to sign up.

Planning reform.

61. Planning reform could also help, for example in supporting the development of onshore wind and solar by balancing the urgent need to deliver great renewable energy provision while at the same time ensuring that the local environment is protected, and the views of local residents are considered appropriately.

Partnering with the private sector in the use of publicly funded IP.

62. This must be considered in a variety of ways to achieve the strategy.

Q13. How can the UK become a leading hub in structuring and innovating on transition finance?

63. Firstly, the Government must require more disclosure at an issuer level of 'green' and 'brown' finance and require this in a proportional way that suits market participants, whilst also

allowing for a transition between green and brown financial products, whilst acknowledging there will be shades of green during this.

64. Skills and training will be key, and the industry has already been very vocal on this, regarding sustainability for financial professionals. The ICAEW, as a training provider, will have a key role to play in this and already includes Sustainability modules in its flagship ACA qualification. Alongside skills, culture will be key, and the Government must promote diversity in the industry as well as ensuring market participants remain 'humble.'

Q15. How can the UK best support the mobilisation of private investment to natural capital assets?

65. Firstly, by creating clear goals on nature and climate ("Carbon neutral and Nature positive by 2030") and promoting, if not, demanding that businesses and financial institutions also adopt a clear target themselves. Secondly, by making it mandatory to assess and disclose impacts and dependencies on nature. Next, reform environmental harmful subsidies (including those on fossil fuels) by eliminating or redirecting them and promote nature-based solutions for combatting climate change. These recommendations are based on Business for Nature's suggestions for the UN Nature negotiations. Furthermore, the ICAEW as a member of the Global Accounting Alliance (GAA) have signed a call to action on nature loss, showing its commitment to this issue.

Q16. How can the UK government best assess the progress and development of a natural capital investment market?

66. In addition to the suggestions in questions 8-10, the UK can also work with the private sector and support them to collaborate in pre-competitive reviewing of opportunities

Q17. How can the UK financial sector support the delivery of the UK's climate and environmental objectives at the local level, whilst also benefitting local growth and communities?

67. A key point is to promote and encourage investment by the UK Infrastructure Bank into local projects by partnering with local enterprise partnerships and combined authorities.

68. ICAEW's response to the Infrastructure Finance Review in 2019 included several recommendations on how public investment can be an enabler of private investment in infrastructure. These included (but were not limited to) direct investment by city-regions and local authorities to engage communities, local industrial strategies to make improving infrastructure a top priority, and centres of excellence to support investment decisions and in managing risk. These recommendations are also relevant to green infrastructure and to other investments required to deliver net zero and to improve the environment and environmental resilience across the UK.

Q18. How can local authorities support the mobilisation of private and public investment to key sectors and technologies for the UK's climate and environmental objectives, whilst also meeting local priorities? What barriers to this are there?

69. Local authorities need to make climate and environmental objectives a priority in everything they do. This includes developing decarbonisation plans for their own activities, but also in how the work with businesses locally and regionally, for example through local enterprise partnerships (LEPs) and combined authorities, all of which should have net zero and environmental sustainability built into their remits.

70. Another option is for the local authority to act as a direct investor by accessing central government funding made available for green initiatives. There are currently issues with the funding model as local authorities have to bid against each other to obtain funds from numerous different pots. This is inefficient as the bid process wastes valuable finance team time, does not provide the certainty over funding to enable long-term capital projects, and risks favouring local authorities with the resources to submit effective bids.

71. Local authority capital and prudential rules can constrain what local authorities can invest in even where there is good justification to encourage investment. There may be a case for permitting greater flexibility for sustainable investment projects, subject to appropriate safeguards.

72. Climate and environment projects are typically long term in nature and local authorities will need to set out a strategic plan on what is required for their local area, choosing between projects that mitigate against climate and those the build resilience. Local authorities will need the skills to be able to assess the climate impact in their area and to decide on the capital allocation. There may also be value for money constraints if certain spending activities don't meet these criteria – such as retrofitting housing stocks to be more heat resilient versus spending money on more housing.

73. Local authorities also need to have joined-up and agreed adaptation plans as the impacts of climate change are already being felt, and are often place-based and local in nature. There is a danger that adaptation is not a coherent theme across authorities, but sits in a number of departments – for example. transport; housing or flood management – and is fragmented and reactive in its approach.

Q19. What is the current state of capability within local authorities to attract investment, and how can it best be supported?

74. Please see the answer to question 18.

Q20. How can the UK financial sector support SMEs and retail customers to align with the UK's climate and environmental objectives?

75. The current business climate for this group is incredibly onerous, with multiple competing priorities such as the post-Covid recovery, Brexit, war in Ukraine and the escalating cost of living crisis to name a few. This means that the climate threat is pushed down the agenda, and not given immediate attention. SMEs are, by their nature, not generously staffed like larger companies, with the time demanded of senior employees spread thinly across multiple fronts.

76. ICAEW are responding to the data we have collected in the area, and have launched a Climate For SMEs Hub which aims to cut through the noise by providing tools and resources for small to medium sized businesses to build resilient business models. The hug enables users to find guidance on where to start, how to mitigate the effects of climate change and adapt into the future.

77. Financial institutions can help by building capacity amongst SME customers. ICAEW member communication shows that businesses grasp the issues from a risk, rather than strategic viewpoint, and therefore communication to them must be done in a way which they understand and can take onboard.

78. We believe the Government should utilise the resources the ICAEW has, and continues to, produce in order to support and encourage SMEs to begin their climate journey. Via the insight and data the Government is able to collect, there is an opportunity to work together to ensure SMEs meet their objectives, we believe that professional accountants in practice are a good conduit to delivering the sustainability message

Q21. Is there a role for the UK government to facilitate broad access to green finance for local authorities, SMEs or retail customers? If so, what should these roles be?

79. Yes, there is since facilitating genuinely green investments will help contribute to the UK's target of net zero by 2050. For example, housing stock in the UK is generally poorly insulated. Having access to low-cost borrowing to specifically insulate housing stocks would be attractive to many people since it would also reduce heating costs.

80. The UK Infrastructure Bank and the Municipal Bonds Agency provide mechanisms to provide finance for green projects. The key would be to make this finance available over longer periods of time with below market interest rates. Only qualifying green investment should be

permissible. Transparency and accountability would be required here to ensure no fraudulent misuse of public money.

81. One option that may be worth considering is for the Municipal Bond Agency to issue a regular green bond each year that local authorities could participate in for qualifying projects. This would have the potential of providing more efficient and lower cost finance than if individual local authorities seek to raise their finance for green projects on an individual basis, benefiting from shared expertise in capital markets and (to a reasonable level) some pooling of risk.

Q27. What market barriers are there to the integration of environmental-related factors into financial decision-making?

82. The scale of transformation needed to achieve net zero is large, and the journey will have to be broken down into smaller, more achievable steps. To begin with, barriers will be mainly at the individual level, as understanding and acceptance of a net zero economy may be seen as complex and/or the benefits unclear.

83. To ensure the benefits are made clear, the market needs to be producing accurate and coherent data to ensure decision-makers are best able to act. It is unclear whether the market is producing this as yet.

84. Government could also promote and create the conditions for the market to help solve the issue, for example via carbon pricing, guarantee structures and open-source industry data. There could be more focus on what to do with the environmental data once it is available, and champion and promote successful case studies such as: how to integrate scope 3 financed emissions with traditional financial information. These opportunities can be explored further via collaboration with academics and sustainability experts, including the ICAEW, regarding training for sustainability. The Capitals Coalition, supported by ICAEW, have done a lot of work in this area and would be willing to support Government to eradicate present barriers.

Q30. What market barriers are there to the integration of environmental-related factors into financial decision-making? What role should government play?

85. Our members working in the sector note that the Investment Management industry is desperate for an ecosystem that can manage the environmental data required to make decisions. Before these factors are baked in, good quality data is the obvious point. In other countries, such as the Netherlands, companies are able to go to source (such as Ofgem) to gain the required data for their decisions. The UK Government can implement a system such as this, or encourage the financial data industry to develop an ecosystem which decision-makers require.

86. Once this is in place, the validity of the data will need to be attested to. ICAEW members are skilled and experienced in this incredibly important task, and are best placed to provide assurance services around the quality of the data being used for decisions.

87. The Government must also build these factors into its own decision-making, and can lead the way by doing this. The Government represents the majority of the economy, and by doing this will influence private companies to follow suit.

Q32. Is there a role for the UK government to support businesses (of different types and sizes) to make good quality Scope 3 emissions disclosures (including SMEs in the value chain of disclosing entities)? If so, what should this be?

88. See answer to question 20.

Q34. How can the UK government increase the mobilisation of public and private investment to achieve 2030 climate and nature targets in emerging and developing economies?

89. There is an opportunity to expand UK Export Finance's remit to encompass climate and nature-positive objectives when evaluating support for exporters. This could include both the encouragement of exports that support climate and nature targets as well as potentially reducing support for exports that are detrimental to the environment. Capacity building is required to ensure that local finance teams in emerging and developing economies have the PFM skills necessary to bid for financial support for climate and nature related projects from the World Bank, IMF and FCDO.

90. The UK should work with other nations to fund research and development into technologies that will support achieving net zero, and to agree regulations and standards that will make climate and nature targets more achievable. For example, developing technologies to decarbonise international shipping and new standards for operators to apply. The agreement of common standards by the major economies around the world (including the UK) combined with realistic deadlines for implementation has the potential to provide the certainty private capital needs to invest in green technologies to meet climate and nature targets.

Q35. How should the UK government assess and measure progress towards the transition of the global financial system and mobilisation of finance for global climate and nature goals?

91. ICAEW believes this can be done in the following ways:
    - Encourage use of sustainability reporting standards that create a global baseline that is applied by both the private and public sectors. Support the IPSASB in creating suitable public sector sustainability standards.
    - Ensure more countries commit to and keep to their 'Nationally Determined Contributions' as agreed at the 2015 Paris climate conference to align to a pathway of temperature increases to a maximum of 1.5 degrees.
    - Support the creation of internationally recognised assurance framework re climate/sustainability.

Q36. How can governments work with the financial sector to help align the global financial system with the Glasgow Leaders' Declaration goal of reversing forest loss and degradation by 2030?

92. Create clear signals and regulation for financial regulators, including Central Banks, that climate and nature should be fully integrated into their mandates. Building on insights from the Taskforce on Climate-Related Financial Disclosure (TCFD) and Taskforce on Nature-Related Financial Disclosure (TNFD). Moving further on this, instructing the regulators to review and stress test regularly risks from climate change, nature loss and forest loss. The financial sector should also work with, and support, financial institutions to green their finance operations. It is important to think beyond forest loss only, as this is only one ecosystem, and the risks are much wider and more profound, including risks of oceans depletion, soil fertility loss, etc.

Q37. What support is needed to help firms to factor AFOLU related emissions and potential risks into their strategic planning?

93. Support standardizing measuring and valuing AFOLU related emissions, creating aligned metrics, and supporting building capacity in the private sector to apply these measures/metrics. This should include support through the setting up of Communities of Practice with industry leaders at sectoral level, or with professional bodies like the ICAEW.