What's next for green finance and climate disclosure?

Green Alliance and Design Portfolio online event: 14 October 2021

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On 14th October 2021,

Design Portfolio and Green Alliance, hosted a panel on policy changes and market trends in green finance and climate reporting.

Watch the discussion by following this YouTube link: **www.youtube.com/watch?v=chzSSyiuVql**

We were joined by leading experts in the climate field, including:

Sam Alvis

Head of Green Renewal, Green Alliance

Hon. James Shaw

Minister of Climate Change for New Zealand

Carsten Jung

Senior Economist at Institute for Public Policy Research (IPPR)

Bess Joffe

Head of Responsible Investment at The Church Commissioners for England

Zoë Knight

Group Head of the Centre of Sustainable Finance at HSBC

Martha McPherson

Sustainability Director at Design Portfolio

What is the current state of climate finance and reporting in the UK and around the world?

The current state of climate finance rules

- The flow of capital is a critical component of the transition to net zero.
- Green public financing is popular and competitive: Auckland issued green bonds to finance its public transport infrastructure. The bonds offer reasonable rates and are highly oversubscribed.
- Businesses are generally onboard: they might not use the same jargon as public policy, but broadly speaking they are aiming for the same things as the environmental sector.
- WWF and Greenpeace found that British banks alone are responsible for funding companies that are twice as polluting as the whole UK.
- There are trillions of dollars of unquantified, undisclosed risk sitting on corporate balance sheets relating to the effects of climate change on companies' fortunes or on stranded asset risk. These assets are not just a risk to those companies, but to the financial system as a whole.

The Task Force on Climate-Related Financial Disclosures (TCFD):

- Requested by the Financial Stability Board and launched at COP 21 in Paris.
- TCFD's broad recommendations are: (1) disclosure of corporate strategy around climate; (2) ensuring board and management engagement; and (3) clear reporting on emissions.
- Firms within the same sector have different types of disclosures. The aim of the TCFD was to encourage diversity of disclosure, allowing markets to ascertain what worked best before standardising methods of disclosure.

What are the current issues with climate disclosure?

Data:

+ Mandatory transition plans aren't immediately practical for globally diverse corporates: for large businesses with a global supply chain and a global footprint it's difficult to pull together the necessary metrics.
+ However, what we can do in this moment is to set out guidance that will iterate over time.
+ Strategy and risk management often prove more difficult than data and metrics; in the future, TCFD needs to make its way into back-end risk management.
+ Businesses don't necessarily need to spend large amounts of manpower on TCFD if their corporate plan is aligned with the global movement towards net zero.

Harmonisation:

+ Regulation will help the financial sector to harmonise its approaches, ensuring each entity can hone in on the most appropriate levers for its focus.
+ Introducing rigour and harmonisation into the process for devising climate transition plans addresses the risk of greenwashing by establishing standardised criteria and reporting methods for climate disclosures.
+ Most businesses aspire to more than just compliance, but many feel like they are having to get to grips with new announcements all the time. Harmonisation and regulation would smooth this out.

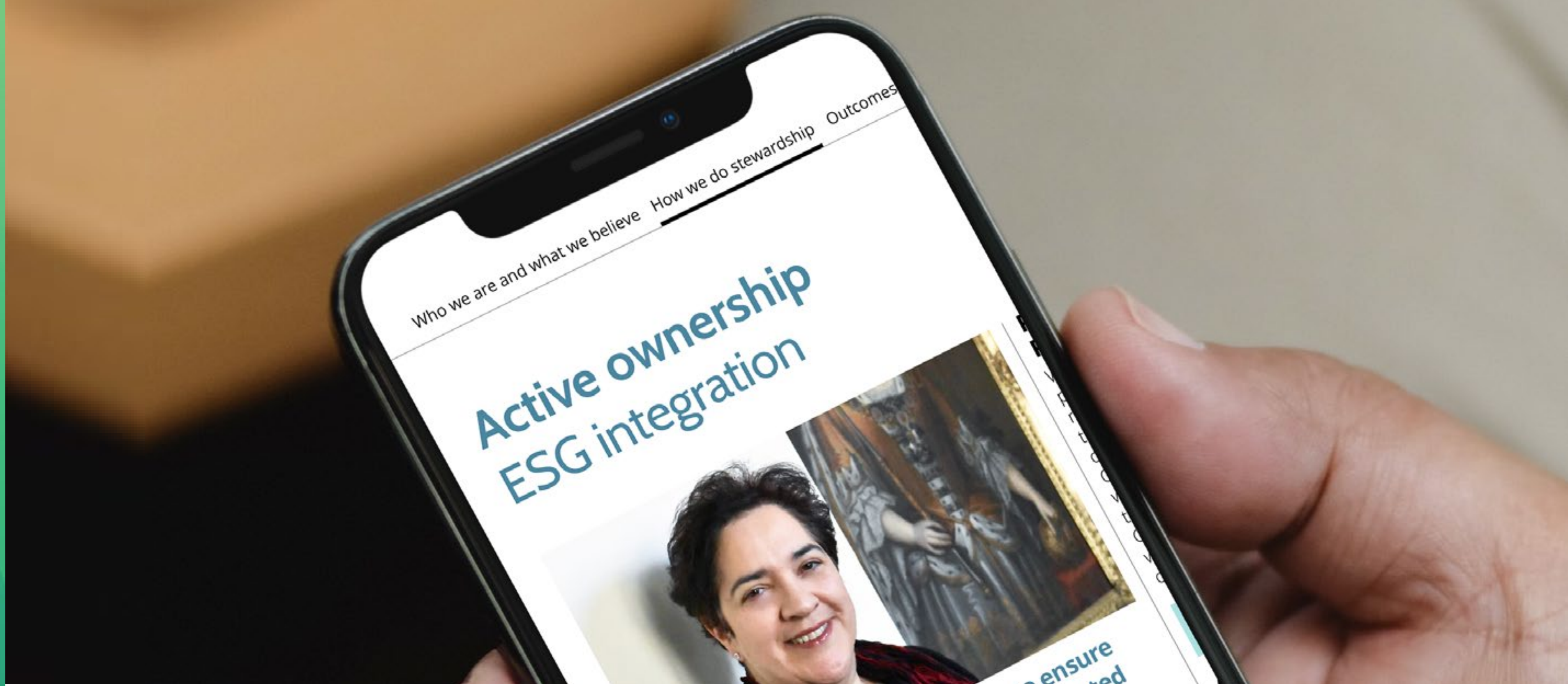
What has New Zealand done on green financial regulation?

+ The New Zealand government started a programme around green finance with three key elements:

1. Green investment bank. A direct investment house to scale up net zero sectors and technologies. Minimum viable proposition of NZ$100m, quadrupled in this year's budget
2. Divesting "Kiwi saver accounts". These are used by about three-quarters of the population. Citizens can pay into seven default funds which are sponsored by the state. Every seven years, they come up for renewal. Last year, the government made one of the criteria for new fund applications that they should hold no investments in fossil fuels.
3. Climate-related financial disclosures for major companies and financial institutions. The regime will be phased in by 2023.

+ A successful transition requires both supply and demand: there need to be investable projects, which will be the next phase of New Zealand's green finance transition.

What do you expect to be the next steps for climate and green financial regulation?



- The Church of England's endowment is around £9.2bn. Church Commissioners are stewards of capital, effectively in perpetuity, to ensure continued funding for the Church.
- Commissioners are experiencing a "perfect alignment" between the values of the Church's stakeholders and the endowment's managers: Church stakeholders are concerned to protect "God's earth" while the Commissioners look to protect the Church's financial future.
- In 2015, the Commissioners passed a climate policy excluding the worst types of emitters from the investment portfolio.
- Over the following years, the approach transitioned from a focus on divestment to a greater effort to engage with sustainable investments.
- In 2018, the Church's General Senate passed a motion calling on national investment bodies to divest from portfolios not aligned with Paris by 2023 and set a target to scale up engagement activities. The Church also agreed on a 2025 target of 25% of 2019-level emissions for the CofE's portfolio.
- Government and regulators need to be aligned. The Commissioners work towards this by playing into consultations and using the place of bishops in the House of Lords.

Where next?

Mandatory disclosures

Rolling out mandatory disclosures:

+ Direction should first be established by legislators.
+ Given that the law is not nuanced enough to delineate the different needs of economic actors, specifics should be passed on to regulators.
+ Businesses which have begun to develop disclosures before it has become mandatory should have input on how the system should best be designed.

New Zealand "go first"

New Zealand is aiming to "go first" in green finance and climate action on the global stage, while being mindful of the different scale of its financial system compared to a country like the United Kingdom.

+ New Zealand's competitive advantage is not in finance but agriculture. But finance is a key enabler of that sector and all other sectors, so it's a critical focus.

Capital reallocation

The financial sector now needs to reallocate capital to get emissions on a downward trajectory There are two challenges for financial institutions: reducing operational and financed emissions. The first is more obvious, the second harder to approach.

+ Two approaches to tackling financial emissions:
   1. investing new capital in a clean, green economy; and
   2. addressing the capital stock driving our existing economic architecture by outlining credible, mandatory transition plans for polluting companies.


TCFD made simple
What is TCFD?
How does TCFD define risk?
Physical risk:
Transition risk:
Who needs to comply and what will be required?
2022