
Sustainable Finance in the UK: Partnering with the financial sector to deliver green growth

July 2024

As the impacts of climate change and nature degradation continue to be seen around us, it is imperative to make further progress towards global and national greenhouse emission reductions, nature restoration and broader sustainability goals. AFME continues to strongly support the important role of capital markets and private finance in supporting the transition of the UK and global economies to meet climate, environmental and social objectives.

We welcome the government's plans to deliver green growth and make the UK a leading centre for green finance. Financial institutions have an important role to play in providing and facilitating the financing needed to support companies as they decarbonise. However, we would also encourage the government to recognise that the financial sector's ability to support the transition will depend to a large extent on whether the conditions are in place to enable the real economy to transition, thereby creating opportunities for finance and investment to support such activities.

To make progress in meeting the UK's Net Zero and broader sustainability goals, it is crucial that the government focuses on putting in place the policies, roadmaps, incentives, mandates and investments for the real economy to have the information, the tools and the incentives to adapt their businesses. This will in turn facilitate finance which will be available to support companies' investment and financing needs throughout the transition.

Alongside this, as recognised in the Labour Party Manifesto and Financial Services Strategy, it is important to proceed with targeted and proportionate policies on sustainability reporting and transition plans. The UK's ambition to become a leading hub for the provision of transition finance should also be upheld. We believe that the government should prioritise:

- the endorsement and consultation on the adoption of UK Sustainability Reporting Standards aligned with the standards developed by the International Sustainability Standards Board (ISSB);
- consulting on the adoption of transition plan disclosures for listed and unlisted companies; and
- following up on the recommendations of the Transition Finance Market Review to facilitate transition finance.

In addition, it is important to reflect on how the public and private sector can work together, including on blended finance solutions, to maximise the impact of public investments and support innovation. We welcome the government's plans to invest in renewable energy and use public investment to crowd in private funding.

We look forward to engaging with the government on how the regulatory framework can foster an environment that enables finance to flow to support climate, environmental and broader sustainability objectives. It is vital that it is workable in practice, coherent and internationally interoperable. We also strongly encourage the government to enhance cooperation with international partners, including the EU, including around linking the UK and EU Emissions Trading Schemes and the Carbon Border Adjustment Mechanism.

We set out below our initial reflections on key areas and would welcome the opportunity to discuss these further with the government.

Association for Financial Markets in Europe

London Office: Level 10, 20 Churchill Place, London E14 5HJ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 883 5540

Frankfurt Office: c/o SPACES – Regus, First Floor Reception, Große Gallusstraße 16-18, 60312, Frankfurt am Main, Germany
T: +49 (0)69 710 456 660

www.afme.eu

The importance of creating economic conditions to support the real economy's transition

We welcome the government's focus on delivering green growth and emphasise the importance of creating the right policy environment backed by incentives for companies to transition. This will in turn help unlock financing and investment to support the transition.

It is important to set clear, stable, policy and roadmaps providing medium-long term clarity on how different sectors of the economy will transition to meet the UK's climate and environmental goals, backed by economic incentives. We welcome the government's plans to significantly expand renewable energy by 2030 and invest in carbon capture and storage, hydrogen and marine energy. We call for the government to set out a transition plan for the UK to meet its climate targets.

Sustainability Disclosures

We welcome the government's commitment to establishing a clear timeframe for instituting transition planning and sustainability disclosure requirements for listed and unlisted companies in line with the global standards set by the ISSB. It is important to proceed with the consultations by the government and the Financial Conduct Authority (FCA) for listed and unlisted companies to establish an effective sustainability disclosures regime in the UK.

We support the endorsement of the ISSB standards for use in the UK without any substantive changes.¹ The UK should avoid going beyond the ISSB framework at this stage. This will enhance international interoperability and support the UK's ambition to become a green finance hub.

The government should ensure that the UK's regime is consistent with the ISSB's global reporting principles. It should promote the international interoperability of sustainability disclosures and avoid introducing jurisdictional requirements for subsidiaries of groups which are covered by sustainability disclosures at group level. Sustainability-related strategies, targets and metrics for large and multinational firms are typically set at group-level and in the case of non-UK groups, at a consolidated ultimate parent level. Therefore, standalone entity-level reporting may have limited value as it may not align with how the strategy is set and risks and opportunities are managed, monitored and governed within the organisation. We therefore recommend permitting subsidiaries to meet their reporting obligation by reference to consolidated reporting by their parent institution, including those that are headquartered outside the UK.

Transition Finance

We welcome the Transition Finance Market Review (TFMR) and see promoting and facilitating transition finance as an important priority. AFME has provided input to the TFMR and we look forward to continued collaboration with the TFMR and HM Treasury to support companies in the UK and abroad in accessing the capital they need to decarbonise and deliver Net Zero ambitions.

Policymakers have a pivotal role in fostering a conducive atmosphere for transition finance. Recognising the inherent ambiguities in transition finance - acknowledging that there are various pathways to Net Zero - is crucial. A rigid regulatory framework can stifle innovation and progress. Instead, a more nuanced, flexible approach that adapts to the multifaceted nature of transition activities is needed. Such a framework should not only accommodate, but also encourage, diverse methods of transitioning towards sustainability.²

¹ For further details, see AFME/UK Finance response to the TAC on UK adoption of international sustainability disclosures, available [here](#)

² See AFME's response to the TFMR call for evidence for further details, available [here](#).

Regulators can further bolster this effort by endorsing market initiatives to develop transition frameworks. Public support from regulatory bodies can lend credibility and momentum to these market-led endeavours.

Transition Plans

Transition plans can provide valuable information for banks to understand the decarbonisation trajectories of their clients and engage with them to understand constraints and potential needs or opportunities for financing, supporting the provision of transition finance. They also help companies understand and address their climate impact and adapt their business strategy to make the most of opportunities from the transition.

While the adoption of transition plans can help promote the credibility and integrity of sustainable finance, it is important to recognise that transition plans alone do not create the economic conditions needed to make real economy transition activity commercially viable. The government should prioritise a whole of economy approach to transition and recognise that banks' balance sheets, and therefore their transition plans, are a reflection of the wider economy.

We look forward to engaging with the government and the FCA on how to ensure that transition plan disclosures can be designed to support the government's ambition to become a global hub for transition finance. The introduction of transition planning requirements must go through proper consultation and careful consideration. For a disclosure regime around transition plans to be effective, it will need to strike the right balance between credibility and flexibility.

A credible transition plan is one that is science-based, feasible, and contains references to what practical steps companies are taking, or plan to take, to make progress towards their strategic ambition.

A flexible approach to transition plan disclosures, allowing room for the bespoke nature of each firm's plan, as well as a 'safe harbour' for firms to disclose forward-looking and sensitive or confidential information, is the best way to ensure that transition plans add value without imposing unnecessary costs. Such flexibility would also acknowledge the fact that implementing and, ultimately, achieving the goals set out in a transition plan will depend on external factors such as technological developments and government policy.

As for broader sustainability disclosures, it is important that the UK's regime on transition plans is consistent with the ISSB's global reporting principles - especially when it comes to financial materiality - to ensure a level playing field between firms operating in the UK and other jurisdictions, as well as enabling global investors to compare UK firms with their peers around the world. It will also reduce unnecessary reporting requirements for multinational firms operating in the UK. We encourage the government and the FCA to ensure international interoperability of transition planning requirements.

Blended Finance

The government should build upon the work of the TFMR and work with market participants to develop innovative approaches to sustainable finance including the role of blended finance.

While blended finance is not new, providing the means to scale it up rapidly is an imperative, necessitating a collective effort by the public and private sector across the globe. We recommend that the government takes a leadership role in this through:

- Domestically: encouraging private sector participation through regulatory incentives, better capital treatment of blended finance structures and the implementation of enabling policy measures; and
- Internationally: enhance its participation and ambition in country platforms (e.g. JETPs) and leverage its international climate finance/development aid through multilateral structures that bring in private finance.

UK Green Taxonomy

The previous government set out plans to launch a public consultation with a view to delivering a UK Green Taxonomy. We strongly encourage the government to first engage widely with companies and financial institutions to ensure that there is a clear use case for a taxonomy, reflecting upon progress in other areas such as sustainability disclosures, transition planning and market practices.

If the government decides to proceed with a taxonomy, it is essential that it is voluntary, decision-useful, usable in practice and interoperable with other key taxonomies such as the EU Taxonomy.

Carbon Markets

The UK's carbon pricing regime, encompassing the UK Emissions Trading Scheme (ETS) and any expansion, the forthcoming Carbon Border Adjustment Mechanism (CBAM), as well as Voluntary Carbon Markets (VCM), should each be independently robust, given clear guidelines via policy and, where relevant, interoperable with other pricing/market regimes (e.g. in-region removals should be interoperable to facilitate market liquidity and effective price discovery). A simple regime is crucial for businesses and individuals to participate in carbon trading, driving innovation and investment in green technologies.

Functionality is key to maintaining a robust carbon pricing mechanism that supports the UK's ambitious Net Zero targets and promotes global emission reductions. Further, an interoperable system that allows for the transfer of credits between markets will encourage a more dynamic market, fostering competition and driving down the cost of compliance. Easy access to these markets is essential for widespread adoption, ensuring that all sectors can contribute to the decarbonisation effort.

The UK should consider linking the UK ETS with the European Union's Emissions Trading Scheme (EU ETS). This would put into practice the 'serious consideration' the UK and EU have given to linking in the Trade and Cooperation Agreement (TCA). Linking the UK and EU ETS would enhance the confidence in both carbon markets, reduce compliance costs for covered entities, optimise price discovery, and enable participants to manage their carbon exposure more effectively. Critically, such linkage would negate the need for carbon borders between the UK and EU, thereby preventing carbon leakage and alleviating the significant challenges that industry is likely to encounter with the implementation of carbon border taxation.

We encourage the government to reflect upon the recommendations of IOSCO in its Consultation Report and to adopt a high-level approach towards developing VCM regulatory principles and bringing financial market best practices to VCMs. Regulatory good practices will likely be most relevant to supporting sound market structures and promoting market integrity within secondary VCMs. Conversely, matters related to the environmental integrity (or 'quality') of carbon credits and the maintenance of associated standards are best managed by private-led Voluntary Carbon Credit initiatives (e.g., the ICVCM). Therefore, we urge the government to support these initiatives to ensure robust verification processes for carbon credit attributes within VCMs.

ESG Ratings Providers

We encourage the government to proceed with plans to regulate the provision of Environmental, Social and Governance (ESG) Ratings, enhancing clarity and trust in the market. This should build upon the Code of Conduct for ESG ratings and data providers launched at the end of last year and ensure that its scope avoids overlap with existing regulation.³

³ For further details, see AFME's response to HM Treasury consultation on regulation of ESG Ratings Providers, available [here](#)

Nature and Biodiversity

AFME recognises the importance of addressing nature loss alongside climate change. We welcome the ISSB's exploratory work on biodiversity, ecosystems and ecosystem services, building upon the work of the Taskforce on Nature-Related Financial Disclosures (TNFD). Any future nature-related disclosure standards should reflect upon the outcome of the ISSB work to establish a global baseline.

We support efforts to develop nature-related finance. AFME published a report⁴ with recommendations to support the development of nature-related finance and we would be happy to discuss this with the government.

AFME Contacts

Oliver Moullin

Managing Director,
Sustainable Finance & General
Counsel

oliver.moullin@afme.eu

Rachel Sumption

Manager,
Sustainable Finance

rachel.sumption@afme.eu

Matthew Harley

Manager, Advocacy

matthew.harley@afme.eu

Carolina Cazzarolli

Manager, Advocacy

carolina.cazzarolli@afme.eu

About AFME

AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-European and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu

⁴ https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME_Biodiversity2022-3.pdf