



MOBILISING GREEN INVESTMENT - THE UK 2023 GREEN FINANCE STRATEGY

The 2023 Green Finance Strategy (the Strategy),¹ published on 30th March 2023, represents the latest policy document developed by HM Treasury, the new Department for Energy and Security and Net Zero, and the Department for Environment, Food and Rural Affairs.

The Strategy sets out the next steps on transition planning and the UK Green Taxonomy² to ensure that green finance markets are robust. The Strategy also sets out how the UK Government is working with a range of public financing bodies to commercialise and finance green technologies.

The Strategy also incorporates both nature and climate adaptation into the UK's green finance framework. It highlights the fact that a new nature markets framework has also been published,³ which explains how the UK aims to develop high-integrity markets, enabling farmers and land managers to attract investment into natural capital.

Finally, the Strategy sets out how the UK Government aims to accelerate the shift to a green global financial system and catalyse green financing globally.



STRATEGY STATEMENTS MADE IN THE EXECUTIVE SUMMARY



Climate change, biodiversity loss and environmental degradation are transforming the global economy.



The UK's COP26 Presidency in 2021 generated historic momentum in the number of businesses, regions and investors seeking to align with climate and environmental goals, with over 90% of global GDP now covered by national net zero targets.



The transition is viewed, not only as an environmental imperative, but a growth opportunity for the UK.



The Strategy is an update to the UK's 2019 Green Finance Strategy and sets out how continued UK efforts on green finance aim to cement the UK's place at the forefront of this growing global market, and how the UK Government plans to mobilise the investment needed to meet its climate and nature objectives.

More broadly though the Strategy looks to establish a framework to assess the ISSB sustainability standards for their suitability for adoption in the UK; ongoing support for the TPT; and a commitment to deliver a UK Green Taxonomy. The Annex also provides a full list of commitments.

The Strategy objectives

The Strategy aims to deliver on five key objectives.

1. UK financial services growth and competitiveness;
2. Investment in the green economy;
3. Financial stability;
4. Incorporation of nature and adaptation; and
5. Alignment of global financial flows with climate and nature objectives.

Overview of the Strategy

Overall, the Strategy looks at the foundations of the UK approach to green finance.

Chapter two of the Strategy, '*enabling the market to align with UK climate and environmental goals*', refers to the commitment made by the UK at COP26 to become the world's first Net Zero-aligned Financial Centre, building on its *Greening Finance: A Roadmap to Sustainable Investing (2021)*,⁴ and on stakeholder feedback received in its Call for Evidence.

This includes improving the quality and quantity of sustainability-related information and data provided to the market, supporting the development of related tools and frameworks and using policy levers to shift and scale up the availability of finance for these goals.

A pathway towards a UK Net Zero-aligned Financial Centre

According to the Strategy, key components towards this pathway include:

- UK financial institutions having a robust firm-level transition plan setting out how they will decarbonise as the UK meets its net zero targets, and
- Strong government oversight of the financial sector as a whole, to ensure financial flows shift towards supporting net zero.⁵

According to the Strategy, the creation and implementation of high-quality transition plans is intended to act as a vehicle for driving change and the UK's Transition Plan

Taskforce (TPT) aims to support the development of private sector transition plans.

The Strategy notes that the UK has signed up to the Kunming-Montreal Global Biodiversity Framework⁶ which provides international goals and targets in relation to nature/biodiversity.

The Net Zero-aligned Financial Centre framework⁷ sets out how the UK Government's green and sustainable finance policies work toward bringing about the net zero transition in the real economy and provide government oversight to ensure the shifting of financial flows.

The Net Zero-aligned Financial Centre framework contains three related areas:

1. TRANSPARENCY: Relating to ensuring that the “right information and data” flows from the real economy to firms, and from financial advisers to end investors, to inform stakeholders. Key policy levers include Sustainability Disclosure Requirements (SDRs), transition plans, financial product labelling and support for initiatives seeking to improve global data coverage and tracking capability.

2. TOOLS FOR TRANSFORMATION: The UK Government plans to support the development of tools and frameworks that all financial market participants will need to incorporate information into investment decisions and monitor their progress on sustainability so that financial markets can act upon the data provided. Key policy levers include work on benchmarks and ESG ratings.

3. TRANSMISSION CHANNELS: The use of government policy levers to shift and scale up the availability of finance for the transition to net zero by: i) de-risking green investments and lowering their cost of capital; ii) broadening pools of capital and the investor base and iii) enabling investors to influence corporate practice.

According to the Strategy, key to ensuring that the UK's Net Zero-aligned Financial Centre framework delivers the outcomes necessary will be the development and application of appropriate key performance indicators

(KPIs). HM Treasury intends to engage widely with stakeholders on its approach to these KPIs with a view to finalising its framework in 2024.

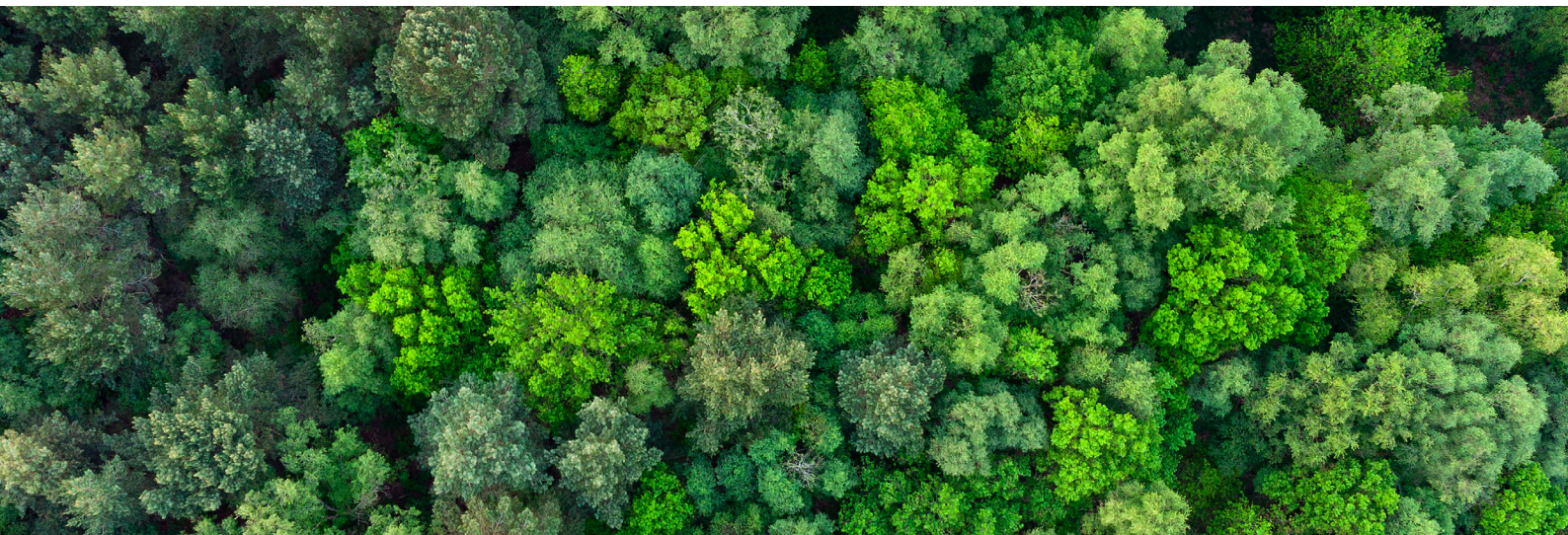
The Strategy envisages that KPIs could potentially cover topics such as the quantity and quality of sustainability reporting and transition plans; consistency of finance flows with climate goals; the size of green finance markets; jobs and skills in green finance; and the competitiveness of the UK as a global green finance centre.

1 TRANSPARENCY: COMPARABLE AND CONSISTENT INFORMATION FLOWS

The Strategy highlights the fact that market participants need consistent, comparable data and information to flow from the real economy into their decision making. The Strategy explains how the UK has already taken a number of steps to ensure market participants have the data they need, including: becoming the first G20 country to require Taskforce on Climate-related Financial Disclosure-aligned (TCFD) disclosures across the economy; setting out a comprehensive approach to disclosure in the Greening Finance: A Roadmap to Sustainable Investing, and being the first government to fund and fully support the creation and progress of the Taskforce on Nature-related Financial Disclosures (TNFD).

According to the Strategy, a key aspect of the UK's disclosure framework has been the requirements aligned with TNFD recommendations. In November 2020, the UK Government set out a commitment to introduce economy-wide requirements by 2025, and at the end of December 2021, the Financial Conduct Authority (FCA) had introduced climate-related disclosure requirements aligned with the TCFD's recommendations for regulated firms such as asset managers and FCA-regulated pension providers.

The UK is currently in the first full year of TCFD-aligned climate-related disclosure requirements cycle. TCFD requirements will be a central part of the SDR framework⁸ as well as the foundation for the IFRS Sustainability Disclosure Standards.⁹





The Strategy states that the UK Government remains committed to implementing the SDRs and will set out further detail on the implementation of SDR in the summer.

The remainder of chapter two sets out more details around:

-  **Disclosure of transition plans;**
-  **International Financial Reporting Standards (IFRS)** Sustainability Disclosure Standards produced by the International Sustainability Standards Board (ISSB);
-  **Supporting companies to understand and report** on their greenhouse gas (GHG) emissions, nature-related financial risks and impacts, and physical climate risks; and
-  **Fund labels and the FCA approach to SDR.**

As stated in the Strategy, the disclosure of specified energy use and GHG emissions by the largest UK businesses has been required since 2013. The Strategy notes that Scope 3 GHG emissions can account for anywhere between 80%-95% of an organisation's total footprint and states that this presents a potential information gap for investors.

According to the Strategy, there is significant uncertainty in the market around the methodologies used to generate and report Scope 3 GHG emissions data, so the UK Government wants to explore how it can support Scope 3 reporting and plans to launch a call for evidence to gather stakeholder views.

The UK Government also plans to explore how best the final TNFD framework, due to be published in September 2023, should be incorporated into UK policy. According to the Strategy, evidence from the annual TCFD status report, and the FCA and Financial Reporting Council (FRC) reviews of TCFD reporting, suggests that organisations are struggling with aspects of reporting requirements for physical climate risks. The UK Government therefore intends to work with industry partners to improve this, through the development of adaptation metrics and guidance.

The Strategy states that the UK Government's approach, alongside its adaptation finance deliverables is proposed to be announced by the end of 2024.

The Strategy refers to the FCA's proposals on SDR and investment labels (CP22-20), which it states aims to protect consumers from greenwashing and help them navigate the market and make more informed decisions. Following FCA feedback and engagement, the Strategy states that the FCA will work with the UK Government to finalise the proposals.

TOOLS FOR TRANSFORMATION

The Strategy says that companies and investors must have access to certain tools to be able to assess and act on sustainability disclosures, develop and deliver on transition plans, or to develop new products and services.

According to the Strategy, the UK Government and regulators are currently taking action to support the development of such tools, products and services, including:

		
A UK Green Taxonomy	Data and analytics	ESG data and rating agencies
		
Benchmarks	Financial advice	Education and skills

According to the Strategy, the UK Government appreciates that developing an appropriate taxonomy is complex and is keen to learn the lessons from taxonomies introduced in other jurisdictions.



According to the Strategy, the UK Government appreciates that developing an appropriate taxonomy is complex and is keen to learn the lessons from taxonomies introduced in other jurisdictions. This will involve developing the building blocks of the UK Green Taxonomy, such as environmental objectives and the relevant criteria, and considering whether it is appropriate to pursue a 'Transition Taxonomy', which was a recommendation of the Net Zero Review, or include certain transitional activities within one Taxonomy.

A consultation on a UK Green Taxonomy is expected in Autumn 2023. The UK Government proposes that nuclear will be included, subject to the consultation.

In line with Green Technical Advisory Group (GTAG) guidance, the UK Government says it will also work with international partners to ensure that other efforts to develop national taxonomies are informed by the UK's principles and approach.

A sub-group to GTAG has also been created - the Land, Nature, and Adapted Systems Advisory Group (LNAS) - to advise on sustainable agriculture and fisheries. It will also consider the role of infrastructure, including nature-based infrastructure.

As regards data and analytics, the Strategy highlights that in the 2019 Green Finance Strategy¹¹ the UK Government launched the £10 million Climate and Environmental Risk Analytics for Resilient Finance.¹² The resulting UK Centre for Greening Finance & Investment (CGFI), a research consortium,¹³ was then established in 2021 to accelerate the adoption and use of climate and environmental data and analytics by financial institutions.

According to the Strategy, CGFI will broaden its research scope and promote best practice, develop guidance and standards. It will also expand its support to all parts of the UK green finance ecosystem through sector specific workshops and prototyping, capacity building and student placement programmes.

The Strategy states that ESG ratings are becoming increasingly important products for investors trying to assess the environmental performance of a company. As

part of the Edinburgh Reforms,¹⁴ the UK Chancellor of the Exchequer announced that the government would consult on the regulation of ESG ratings providers.

Alongside the Strategy, HM Treasury has also published a consultation on a future regulatory regime for Environmental Social and Governance 'ESG' ratings providers.¹⁵ This seeks views on whether ESG ratings providers should be brought into the FCA's regulatory perimeter and on how this could be done.

The Strategy highlights that the UK Government recognises that benchmarks and indices play a role in the allocation of capital towards green and sustainable investment. The UK's regulatory regime for benchmarks already makes provision for ESG benchmarks by setting out requirements for voluntary ESG labels (UK Climate Transition Benchmarks and UK Paris-aligned Benchmarks) and requires all providers of benchmarks to disclose sustainability metrics or declare that they do not have a sustainability objective.

In addition to the wider regulatory and government initiatives contained within the Strategy, it states that the UK Government will decide in due course on the necessity for any further reforms to the regulatory regime for benchmarks.

As already discussed in CP22-20, the FCA is also exploring how to introduce rules for financial advisers aimed at confirming that they should take sustainability matters into account in their investment advice and understand investors' preferences on sustainability to ensure their advice is suitable.

Finally, in the area of education and skills, as announced in the 2019 Green Finance Strategy and launched in June 2020, the Green Finance Education Charter (GFEC) aims to build the knowledge and skills of finance professionals, and the capacity and capabilities of the finance sector, to support UK and international net zero and sustainability targets.

The Strategy highlights the fact that the GFEC will be re-launched alongside the Strategy as the Sustainable Finance Education Centre (SFEC). The Strategy states that this



reflects the need for professional bodies and professionals to address wider issues of biodiversity loss and nature-based finance, transition planning, and ensuring an economically and socially inclusive transition.

3 TRANSMISSION CHANNELS

The Strategy describes transmission channels as being the link between projects and sectors that could have an impact on transition, and the scale of finance available. The UK Government will continue to explore the actions it can take to enable key transmission channels for financing aligned to a net zero, resilient and nature positive economy: the cost of capital; access to liquidity; and investor stewardship.

The Strategy highlights the fact that as the providers and allocators of capital, asset owners, asset managers, and the service providers that support them can use their rights and influence to drive change within the businesses in which they invest. The Strategy makes it clear that effective stewardship is crucial to the successful management of risks, opportunities and impacts presented by climate and environmental change [and goes on to highlight the FRC's UK Stewardship Code in this regard].

The Strategy states that in Q4 2023, the FRC - working with the FCA, Department for Work and Pensions (DWP) and the Pensions Regulator - will review the regulatory framework for effective stewardship, including the operation of the UK Stewardship Code. This review will consider:

- Ways to evaluate and communicate the efficacy of stewardship activity and outcomes;
- The need for a common language for stewardship, for example defining engagement;
- The role of systemic stewardship in supporting the achievement of positive sustainability outcomes;
- Ways to align expectations, and reporting that is proportionate and not duplicative; and
- Evolving expectations for stewardship in asset classes other than listed equity.

The Strategy states that stakeholder engagement and evidence will also be sought ahead of this review.

Working with regulators

Key UK regulatory bodies mentioned in the Strategy are the Bank of England, the Environment Agency, the FCA, the FRC and the Pensions Regulator. An overview of remit, work and future actions by regulators are covered in the Strategy under Figure 4 starting on page 57.

The Strategy also covers working with international partners. In this respect, the Strategy states that the UK Government will seek to accelerate progress by championing action to align the global financial system; drive alignment of development finance; and build partnerships with emerging markets and developing economies.

As regards interoperability, the Strategy highlights the fact that the UK Government is working in three key areas to drive this globally to align both climate and nature goals. It states that it will:

- ✓ **Assess the IFRS Sustainability Disclosure Standards** for use in the UK and supporting the adoption of equivalent standards by other jurisdictions;
- ✓ **Support the work of the TPT** in creating a global gold standard for transition plan disclosures aligned with IFRS Sustainability Disclosure Standards, which are intended to be promoted as a basis for other jurisdictions to use; and
- ✓ **Encourage the development of a science-based global baseline on taxonomies** - considering the GTAG recommendations and strengthening UK engagement in the International Platform for Sustainable Finance.

Further initiatives are also discussed in the Strategy, and details on these can be located on pages 63 through to 67.

Next steps

The Strategy lists out commitments over the next couple of years:

TIMING	ACTIVITY
In 2023	<ul style="list-style-type: none"> • Publish a series of net zero investment roadmaps and a nature investment roadmap. • Consult on the specific steps and interventions needed to mobilise additional finance through high-integrity voluntary markets and protect against the risk of greenwashing. • Work with UK financial institutions to start a series of Government-convened roundtables, to further tackle deforestation-linked finance. • Host a series of roundtables to engage stakeholders on how fiduciary duty can be further clarified. • Consult on the UK Taxonomy.
Q2 2023	<ul style="list-style-type: none"> • Bring into force amended regulations to implement pensions reforms, subject to Parliamentary approval, as early as April 2023. • First meeting of Net Zero Business and Investment Group.
Q3 2023	<ul style="list-style-type: none"> • Launch a formal assessment mechanism as soon as the first two IFRS Sustainability Disclosure Standards are published (expected June 2023). • Set out further detail on the SDR implementation timeline to reflect the rapid development of international standards. • Engage stakeholders on an update to the Environmental Reporting Guidelines, which provide voluntary environmental reporting guidance for UK organisations. • Launch a call for evidence on scope 3 emissions reporting. • Publish the first impact report detailing the environmental impacts and any social co-benefits resulting from the expenditures of the Green Financing Programme, in September 2023. • Host the Global Investment Summit 2023.
Q4 2023	<ul style="list-style-type: none"> • Provide further information and clarity for trustees on their fiduciary duty in the context of the net zero transition by reviewing Stewardship Guidance (late 2023). • Consult on the introduction of requirements for the UK's largest companies to disclose their transition plan if they have them. This consultation will take place once the TPT has completed its work in Autumn/Winter 2023. • Explore how best the final TNFD framework (expected September 2023) should be incorporated into UK policy and legislative architecture, in line with Target 15 of the Global Biodiversity Framework. • The FRC - working with the FCA, UK Government and the Pensions Regulator - will review the regulatory framework for effective stewardship, including the operation of the Stewardship Code.
In 2024	<ul style="list-style-type: none"> • Set out the adaptation finance deliverables and action plan.

¹ See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147377/mobilising-green-investment-2023-green-finance-strategy.pdf

² See <https://www.greenfinanceinstitute.co.uk/programmes/uk-green-taxonomy-gtag/>

³ See <https://www.gov.uk/government/publications/nature-markets>

⁴ See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf

⁵ HM Treasury (2021), Guidance Fact Sheet: Net Zero-aligned Financial Centre: <https://www.gov.uk/government/publications/fact-sheet-net-zero-aligned-financial-centre/fact-sheet-net-zero-aligned-financial-centre>

⁶ See <https://www.cbd.int/gbf/>

⁷ See <https://www.gov.uk/government/publications/fact-sheet-net-zero-aligned-financial-centre/fact-sheet-net-zero-aligned-financial-centre>

⁸ See <https://www.fca.org.uk/publications/consultation-papers/cp22-20-sustainability-disclosure-requirements-sdr-investment-labels>

⁹ See <https://www.ifrs.org/groups/international-sustainability-standards-board/>

¹⁰ New Climate Institute (2022), Corporate Climate Responsibility Monitor, <https://newclimate.org/resources/publications/corporate-climate-responsibility-monitor-2022>.

¹¹ See <https://www.gov.uk/government/publications/green-finance-strategy>

¹² See <https://www.ukri.org/what-we-offer/browse-our-areas-of-investment-and-support/climate-and-environmental-risk-analytics-for-resilient-finance/>

¹³ Led by the University of Oxford and funded by UKRI.

¹⁴ See <https://www.gov.uk/government/collections/financial-services-the-edinburgh-reforms> See https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/capital-markets-union/capital-markets-union-2020-action-plan_en

¹⁵ UK Government (2023), Consultation: Future regulatory regime for environmental social and governance ESG ratings providers, <https://www.gov.uk/government/consultations/future-regulatory-regime-for-environmental-social-and-governance-esg-ratings-providers>

Please contact for further details:

David Morrison

Global Head of Trustee and Fiduciary Services
david.m.morrison@citi.com
 +44 (0) 20 7500 8021

Ann-Marie Roddie

Head of Product Development Fiduciary Services
annmarie.rodzie@citi.com
 +44 (1534) 60-8201

Amanda Hale

Head of Regulatory Services
amanda.jayne.hale@citi.com
 +44 (0)20 7508 0178

Caroline Chan

APAC Head of Fiduciary Business
caroline.mary.chan@citi.com
 +852 2868 7973

Shane Baily

EMEA Head of Trustee and Fiduciary Services
 UK, Ireland and Luxembourg
shane.baily@citi.com
 +353 (1) 622 6297

Jan-Olov Nord

EMEA Head of Fiduciary Services
 Netherlands and Sweden
janolov.nord@citi.com
 +31 20 651 4313

www.citibank.com/mss

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