Global Counsel

The race for climate finance leadership

Blog post by Senior Associate Mollie Brennan, 17 November 2020

Last week, the City of London Corporation and the UK Green Finance Institute hosted a ‘Green Horizon Summit’. At the event, a package of proposals was unveiled by the UK government aiming to cement the UK as a global centre for green finance and signal something of the UK government’s post-Brexit vision for the City of London. Chancellor of the Exchequer Rishi Sunak’s commitments to mandate climate risk disclosures for large companies and investors, issue the UK’s first Sovereign Green Bond and develop a UK green taxonomy were all met with wide approval. The question now turns to where the UK’s moves might fit in wider international trends.

On mandatory disclosure, the UK seems likely to be a bellwether. Mark Carney, UN Special Envoy for Climate Action and Finance and champion of the Task Force on Climate Related Financial Disclosures (TCFD) has been pushing hard for mandatory disclosure. With the UK and New Zealand both now requiring climate risk disclosure ahead of 2025, a few other jurisdictions are likely to quickly follow suit – most imminently Canada, the EU and Japan. Canada required firms to adhere to the TCFD in order to receive covid-19 economic support; mandatory TCFD-based reporting is currently under review in the EU and Japanese companies are the largest group of TCFD supporters worldwide, making up almost one quarter of the total. China is still in the early stages of TCFD alignment, but ESG disclosure requirements have been developed for exchanges in Hong Kong, Shenzhen and Shanghai. The US may also move in response to increasing calls from investors for greater clarity and harmonisation on disclosure standards.

The issuance of the UK’s first Sovereign Green Bond in 2021 aims to meet growing investor demand. The UK follows a growing number of countries offering green bonds – the US, China and France remain the three biggest issuers globally. The key challenges here are taxonomic and proof of concept. Debate continues over what constitutes ‘green’ for debt raising and a measure of scepticism persists in the mainstream investor community. It is also not clear whether taxpayers will end up paying more for sovereign debt with a green label. Whilst the issuance of UK green bonds could provide a benchmark for other green funds and increase trust and transparency, ultimately channelling green fiscal efforts through other means – for example, tax - may have a greater impact.

On taxonomy, the UK has signalled that it will broadly follow the EU’s lead in establishing a domestic green finance taxonomy. Presumably to avoid any perception of simply transposing EU approaches, Sunak said this week that although the UK framework will be built around the EU’s taxonomy, a Green Technical Advisory Group will be established to ensure that the approach is fit for the UK market. It is unclear exactly what this means. Avoiding unpicking some of the hard-fought compromises within the EU taxonomy makes sense, and there are many investors that would argue that it is a mistake to develop conflicting taxonomies.

Beyond these three agendas, global initiatives led by corporates and investors continue to grow. Last week, the Net-Zero Asset Owner Alliance set out new rules for thermal coal investment, including the immediate cancellation of all new thermal coal projects. The Taskforce on Scaling Voluntary Carbon Markets published a report on solutions to scale up voluntary carbon markets to meet targets emission reductions in line with the Paris agreement. Acting as coalitions of leading private sector actors, both will play important roles in the upcoming COP negotiations.

Clearly the UK aspires to leadership in these areas, and Sunak's moves signal that. What will be interesting in the years ahead is the way in which the UK is able to build coalitions that reflect its preferences; its ability to define a viable strategy apart from the EU and the extent to which avenues like green bonds turn out to genuine departures rather than potential distractions.