CITY OF LONDON

THE GLOBAL CITY

Championing sustainable finance: the UK's global offer

July 2021

Contents

Foreword

Alderman William Russell
Rt Hon Lord Mayor of the City of London

Catherine McGuinness
Policy Chair of the City of London Corporation

Over the past two years, climate change and sustainability have been at the centre of national and international policy agenda. In finance, this is driving the biggest shift in a generation. It is a transformational challenge for financial and professional services.

Crossing sectors and borders, the City of London is in a natural position to convene policymakers and the private sector to leverage the strengths of the UK financial services industry for sustainable finance. With the capital and expertise you will find here, we are exceptionally well placed to both finance green and to green finance.

COP26 will be a key milestone for us and for the whole world. We recognise that this is a long game and there is much further to go. This report shows where we are doing well and where we need to invest further.

The City is leading by example through our Climate Action Strategy, launched in 2020. We are committed to investing £68 million in the first six years to help make the Square Mile carbon-neutral by 2040, 10 years earlier than government goals. We aim to be a world leader both in making our own City sustainable and in mobilising finance from around the globe. Only by doing both can we ensure we seize the sustainable finance opportunities and meet the defining challenge of our time.

This year, the UK's G7 presidency and hosting of COP26 – the 2021 United Nations Climate Change Conference – in Glasgow give us a unique opportunity to lead the discussions, highlight our sustainability achievements, and showcase our ability to provide innovative financial solutions to meet the climate challenge.

The UK has a comprehensive ecosystem for sustainable finance, with strong policy support, a sophisticated understanding of sustainability, innovative platforms and tools, expert professional services and a broad, deep capital pool. We offer the ideal platform to develop standards and products and to invest in projects that generate positive environmental or social impacts. Different actors, be they investors, issuers or service providers, can find the right platform and expertise they need in the UK to pursue their sustainable finance objectives.

> “UK financial services businesses are ready to contribute their strengths to mobilising and scaling up sustainable finance in the UK and across the world, driving forward the transition to a greener, more sustainable future.

THE GLOBAL CITY

Advancing to a more sustainable future

The immense challenges experienced by the world on the environmental and social fronts in 2020 have made sustainable development an even more urgent global imperative.

The immense challenges experienced by the world on the environmental and social fronts in 2020 have made sustainable development an even more urgent global imperative. In the World Economic Forum's latest Global Risks Report, climate action failure is ranked as the most influential risk along with infectious disease. Extreme weather, climate action failure and human environmental damage are cited as the most likely risks.[1] The assessment affirms that climate change continues to be a looming global risk. Against this backdrop, countries across the world are increasingly addressing the necessity and urgency in transitioning to greener and more sustainable economies. As well as the pledges to achieve net zero by 2050, a number of countries, including the UK, the US, EU states and Japan, have set new targets for emission cuts in the interim.

The UK's commitment to combatting climate change long pre-dates the Paris Agreement, which came into effect in 2016. It was the first country in the world to commit itself to legally binding carbon emissions reduction by passing the Climate Change Act in 2008. Since then, the UK has made impressive progress in realising this commitment – in the past two decades the nation has managed to reduce its CO2 emissions by close to 40%, the fastest rate of reduction among all G7 countries.[2] In 2019, the UK took a step further and became the first major economy to pass laws that require the country to bring all greenhouse gas emissions to net zero by 2050.

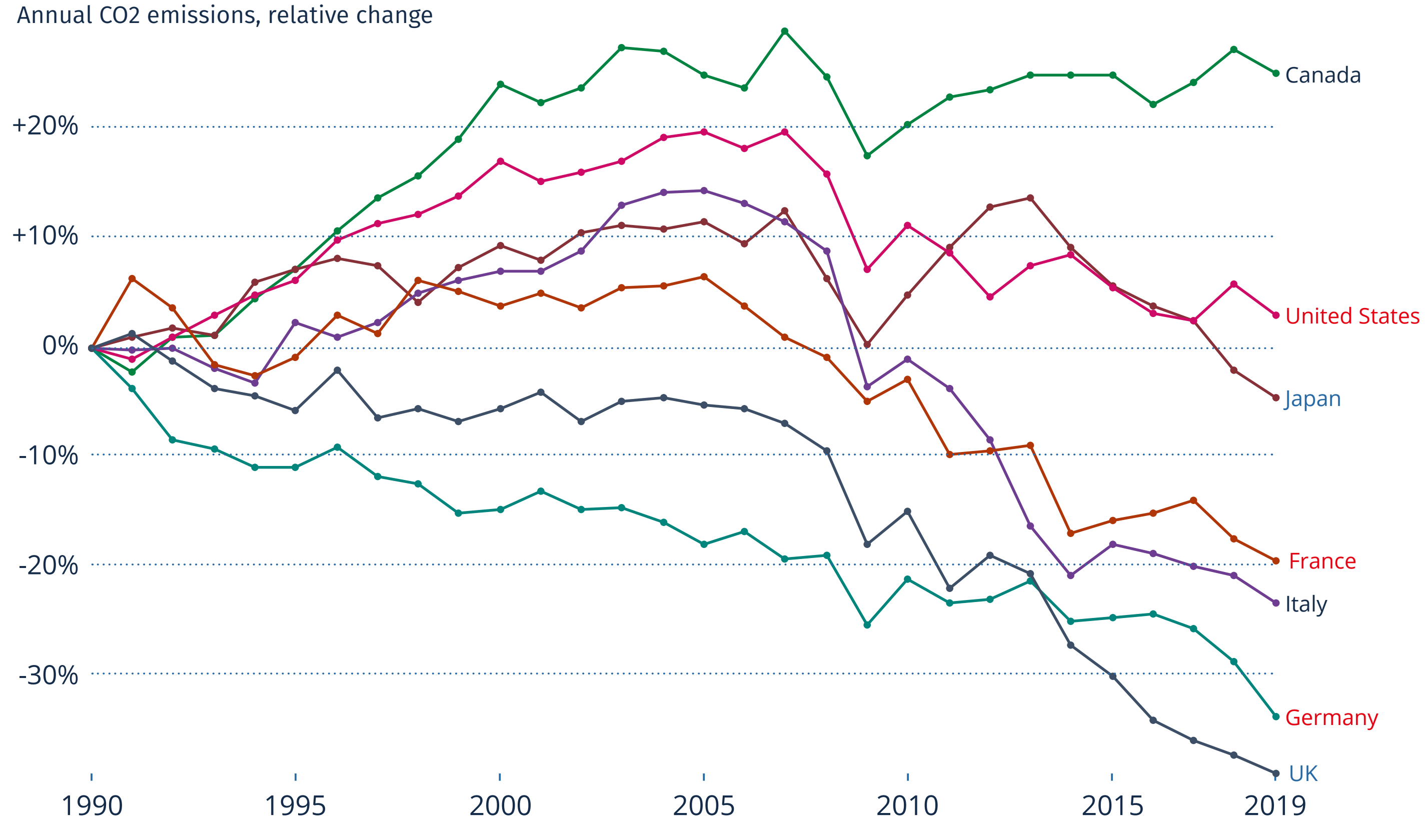
This year the UK escalated its net-zero commitment by passing the world's most ambitious target into law to reduce carbon emissions by 78% by 2035 compared with 1990 levels. The country also continues its leadership of the climate agenda through its G7 presidency and the hosting of the COP26 summit this year, bringing together all of the world's countries to tackle climate change. In the net-zero and green transition journey, global societies need to change the ways in which economic activities are conducted and create new solutions. The process requires mobilisation from governments as well as active contribution from the private sector. As the world's global financial centre with unparalleled reach to businesses, capital and talent, the UK's financial services sector is in a unique position to support the world in financing climate and sustainable development objectives.

Sources

1 World Economic Forum (2021), The Global Risks Report 2021.

2 Global Carbon Projects, retrieved in February 2021.

Figure 1: The UK's achievement in reducing CO_2 Emissions



Source: Global Carbon Project; Carbon Dioxide Information Analytics Centre

Creating new value in sustainable finance

Reallocating resources and making new investments are vital for the green transition.

In this journey, the financial services industry plays an influential role in two respects. On the one hand, it allocates capital in consideration of the environmental, social and governance (ESG) impacts on society, and mobilises funding to finance the transition. On the other hand, the green transition presents a chance for financial services businesses to create new value in their services to clients and capture the emerging demand for funding green projects.

The green transition creates huge demand for investments in infrastructure, energy, transport and innovation. Taking the net-zero target as an example, the Energy Transitions Commission estimated that US$1-2 trillion (1%-1.5% of global GDP) a year would be needed to achieve net zero by 2050.[3] Focusing on the UK, existing infrastructure in the country requires an estimated £40 billion per year on average to be invested over the next 10 years to reach net zero.[4] While challenges lie in accelerating the scale, speed and geographical scope of investments to achieve the target, such demand also presents new opportunities and economic drivers.

Sources

3 Energy Transition Commission (2020), Making Mission Possible – Delivering a Net Zero Economy.

4 PwC (2020), Unlocking Capital for Net Zero Infrastructure.

5 HM Government, DIT (20201), Global Britain, Local Jobs.

6 FTSE Russell (2020), Investing in the green economy – sizing the opportunity.

£40 bn

Estimated investment in UK infrastructure required per year on average in the next 10 years to net zero

The UK government expects the number of 'green collar jobs' in its low-carbon economy to rise to two million, and the value of exports in this sector to reach £170 billion a year by 2030.[5]

Sustainable development is not only about combatting climate change. It also involves a wide range of economic activities that generate positive environmental or social impacts to society, including energy, transport, waste management, food and agriculture, and financial and professional services. The transition to a more sustainable economy entails huge business potential. A study by FTSE Russell demonstrated the opportunities of the green economy in the equity universe: more than 3,000 global listed companies can be categorised as 'green economy', which represents a £3.1 trillion investment opportunity and 5%-6% of the global equity market. The segment has grown faster than the world's equity market.[6]

More than 3,000 global listed companies can be categorised as 'green economy', which represents a £3.1 trillion investment opportunity and 5%-6% of the global equity market.

Sources

7 Refinitiv Deals Intelligence (2021), Sustainable Finance Review Full Year 2020.

8 Bloomberg Intelligence (2021), Rapid Increase in ESG ETF Flow Suggests Long Term Switch.

Financial services businesses are actively exploring the transition opportunities. Sustainable investment, which integrates ESG risks into the investment risk management and decision-making process, is no longer considered a niche activity. At the same time, the growth of sustainability-related investment products has gathered momentum. The annual global issuance of sustainability-related bonds in 2020 grew to an all-time record of £432 billion, more than double the level in 2019. Green, social and sustainability issuances all recorded impressive growth (see Figure 2).[7] Such a remarkable acceleration is not restricted to debt instruments – ESG exchange traded funds (ETFs) saw net inflows of close to £70 billion in 2020, three times higher than 2019 and 10 times higher than 2018.[8] Investors are moving towards a long-term shift to sustainability-related products, when sustainable investment principles gradually become mainstream.

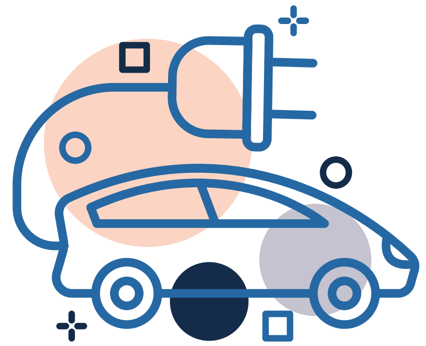
£70 bn

2020' s net inflows of ESG exchange traded funds (ETFs)

Figure 2: Sustainability-related bonds recorded impressive growth in 2020

	Issuance (£bn)	Share of total	Growth from 2019
Green bonds	£174	41%	+26%
Social bonds	£128	30%	+1000%
Sustainability bonds	£100	24%	+106%

Source: Refinitiv



The Covid-19 pandemic did not derail development in sustainable finance but has further reinforced demand for it. The debt capital-raising activities for Covid-19 relief firmly reflected such a surge – in 2020, global issuance of social and sustainability bonds both surpassed £100 billion for the first time. The share of social bonds in total sustainability-related bonds issuance jumped to 30% from 5% in the previous year. Going forward, governments around the world are anticipating a 'green recovery' by allocating fiscal packages in projects that can generate positive environmental and social impacts. These calls for a green recovery offer a unique role to the financial services sector to step up by providing the platforms and tools to maximise the impacts of these packages.

Going forward, governments around the world are anticipating a 'green recovery' from the pandemic by allocating fiscal packages in projects that can generate positive environmental and social impacts.

The UK offer: an ecosystem ready to serve a greener future

As the largest financial services exporter in the world, the UK is well positioned to be the international green finance hub.

The Global Green Finance Index has consistently ranked London as one of the leading centres for green finance depth and quality.[9] While some other finance hubs may offer a similar level of expertise in sustainable finance, the UK is unique in its breadth and depth. The cluster of international firms in the UK with global reach, best-in-class expertise and a large pool of capital makes the nation the ideal place to link demand for green investments with global sources of funding. Further, strong institutional support from the government and regulators in sustainable finance lays the foundation and generates long-term drivers for sustainable finance activities. Different participants in the UK sustainable finance system are ready to serve the needs of both the UK and the world.

Sources

9 Long Finance, Z/Yen, The Global Green Finance Indexes.

Figure 3: The UK's comprehensive green finance ecosystem

Participants	Roles in sustainable finance	UK's strengths and offers
Government and regulators	Build a 'green' financial system through policy and regulations to drive momentum for sustainable finance	• Targeted policies and regulations to systematically change the financial system • Thought leadership by promoting best practices in the UK and internationally
Market infrastructures and domestic standard-setting bodies	Provide platforms and tools to commercialise and scale up sustainable finance	• Pioneers in innovations of platforms and tools • Ideal location for knowledge exchange • Thought leadership through standard setting and promoting ESG integration
Investors and investment managers	Invest with sustainability considerations and invest for positive impacts	• Great size and depth of international capital pool • Strong capability in implementing sustainable investment strategy
Corporates and issuers	Supply green finance opportunities by developing qualified projects and products	• Strong ESG awareness and integration • The hub for both UK and international issuers
Professional services providers	Provide supporting services to investors and issuers	• The global financial centre with top talent and expertise in sustainable finance • Innovative solutions for sustainable finance

Shaping a green financial system

The UK government and regulators are the frontrunners in adopting best practice and incorporating ESG holistically into the financial system. Climate considerations are now embedded across all of the UK's principal financial regulators. The UK also leads global discussions on key sustainable finance topics to accelerate the development of a green global financial system.

The UK government fully recognises the financial services sector's crucial role in enabling a green transition. Consolidating the UK's role as a global green finance hub is central to the government's climate change policy, as well as its vision to promote the UK as an open, competitive and innovative financial centre.

To realise this vision, the UK government and regulators have been taking up initiatives that aim to fundamentally change how investment risks are assessed and decisions are made.

To shape a green financial system (greening finance), UK government and regulators are working to:

- Embed ESG risk in the financial decision-making process;
- Provide disclosure guidance to promote the use of relevant and transparent data; and
- Drive development of a global green financial system.

Promoter and early adopter of best practice

ESG disclosure is crucial to the development of sustainable finance. It helps to provide the data and information needed to determine whether an investment can be considered green, and for businesses and investors to incorporate ESG factors into their decision-making. Developing a clear disclosure standard to appropriately address materiality and encouraging firms to adopt ESG reporting have been the main challenges in making sustainable finance mainstream.

Encouragingly, we have seen good progress in the development and adoption of reporting standards. The publication of recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD) is seen as a milestone. The recommendations, released in 2017, represented the first global reporting guidance to focus on disclosure in relation to measurements and responses to climate-related risk. The UK was involved in the development process of the TCFD through the Governor of the Bank of England (BoE)'s chairmanship of the Financial Stability Board (FSB).

The UK also led by example in demonstrating strong support towards the TCFD recommendations and being the first G20 country to take a step further, beyond voluntary support of the TCFD.

To date, the UK has the second highest number of TCFD supporters after Japan – 333 private companies, industries, associations and governmental organisations from the UK formally support the Task Force's recommendations.[10] In 2020, the UK government set out a roadmap towards full mandatory TCFD-aligned disclosure across all players in the financial system by 2025.

Besides the TCFD, the UK government is developing a 'green taxonomy' that provides a common standard for measuring a firm's environmental impacts as well as guidance for ESG disclosure. The policy drive for climate-related disclosure is expected to encourage a positive cycle of growth in sustainable finance activities.

Sources

10 As of May 2021, Task Force on Climate-related Financial Disclosures.

Figure 4: Policy drivers provide the growth momentum for sustainable finance

1. Policy drivers and guidance promote higher level of adoption and sophistication in ESG disclosure. More sustainable finance products generated.
2. More information and products available to investors.
3. More investments are channelled to sustainable finance.
4. Issuers are motivated to provide more ESG information and develop more sustainable finance products.

UK regulators demonstrate leadership on green finance by strongly embedding ESG. All principal UK regulators now fully embed climate considerations in their remits and view ESG considerations as part of their mandate.

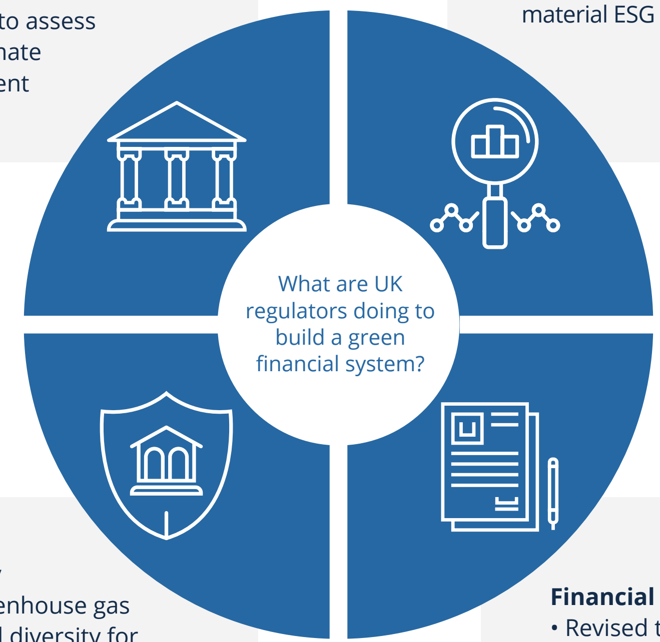
Embedding ESG in the financial system

Different regulators in the UK are also playing their part in incorporating ESG into regulatory requirements to extend ESG stewardship and disclosure. The initiatives cover all players in the financial system, from corporates, pension providers and insurers, to investors. The UK financial system is rapidly shifting towards a new landscape in which ESG is becoming the new normal.

Figure 5: What are UK regulators doing to build a green financial system?

Bank of England
- Publishes its own climate-related financial disclosure
- Incorporates climate risk into prudential supervision
- Conducts stress-testing to assess the impact of climate-related risks on the UK financial system
- Supports firms' readiness to assess financial impacts from climate change through engagement

The Pensions Regulator
- Requires pension scheme trustees to consider climate change as a risk to long-term sustainability when setting and implementing investment strategies
- Mandatory disclosure for pension scheme trustees on how they deal with financially material ESG matters



Financial Conduct Authority
- Mandatory reporting on greenhouse gas emissions, human rights and diversity for listed companies in the UK
- Mandatory TCFD disclosure for premium listed companies starting from 2021
- Extends TCFD disclosure requirements to UK-authorised asset managers, life insurers, FCA-regulated pension providers and wider scope of listed companies by 2023

Financial Reporting Council
- Revised the UK Stewardship Code with a new definition of stewardship that places a strong focus on ESG, effective from 2020
- Requires signatories of the UK Stewardship Code to report on ESG factors that are integrated in their stewardship and investment activities, going beyond the 'report or explain' approach

Driving a global green financial system

UK institutions are at the forefront of agenda-setting and advocacy on climate change, leveraging the UK's global influence to accelerate the development of a green global financial system. For example, the BoE is a founding member of the Central Banks and Supervisors Network for Greening the Financial System (NGFS). In the NGFS, the BoE chairs the workstream looking at sizing the risks from climate change to the financial system and macro economy and contributes to other workstreams on climate-related risks supervision and scaling up green finance.

The UK's contribution to shaping the global green financial system will be reinforced through its G7 presidency and hosting the COP26 conference.

The UK will continue to drive the discussions on key sustainable finance topics, including global regulatory coherence, development of international taxonomies on climate and sustainability, guiding investment flows towards sustainable assets and mobilising climate finance into emerging markets.

EXHIBIT 1: Advancing the financial services industry's net-zero commitment ahead of COP26

One of the key objectives of COP26 is to drive commitments and actions towards the goals of the Paris Agreement across the globe. Two international initiatives were launched in April 2021 in the run-up to COP26 to foster the financial services industry's commitments on the net-zero pledge.

The Glasgow Financial Alliance for Net Zero (GFANZ), chaired by former Governor of the Bank of England Mark Carney, is an initiative that brings together more than 160 firms with assets under management of more than £55 trillion to accelerate the transition to net-zero by 2050 at the latest. The GFANZ will act as a forum for the global finance services industry to coordinate the mobilisation of capital required to deliver the climate goals of the Paris Agreement.

The United Nations Environment Programme Finance Initiative (UNEP FI) and the Financial Services Taskforce (FSTF) of the Prince of Wales' Sustainable Markets Initiative (SMI) co-launched the Net-Zero Banking Alliance (NZBA), which convened 43 of the world's leading banks from 23 countries with £22 trillion in assets. The Alliance's members are committed to aligning operational and attributable emissions from their portfolios with pathways to net zero by 2050.

As the host of COP26, the UK will work to broaden the support from financial institutions and accelerate actions to achieve the net-zero pledge.

EXHIBIT 2: The Green Finance Institute

The Green Finance Institute (GFI), supported by the UK government and the City of London Corporation, was established in 2019 as a response to a key policy recommendation made by the industry-led Green Finance Taskforce to the UK government in March 2018. The commercially focused organisation works to:

- Mobilise public and private finance for clean and resilient growth;
- Support the greening of the financial system through collaborations among stakeholders and by raising awareness; and
- Promote knowledge exchange by building green finance skills and capabilities.

Since its establishment, the GFI has engaged in a number of coalitions and initiatives, such as the Global Resources Initiative, on greening the UK's environmental footprint, and the Coalition for the Energy Efficiency of Buildings (CEEB), on developing the market for financing a carbon-neutral, climate-resilient built environment in the UK.

The GFI supports the landmark *Dasgupta Review*, which calls for changes in our economic approach to nature. It also co-hosted the Green Horizon Summit with the City of London Corporation, which featured 100 global speakers from the public and private sector and attracted more than 300,000 views across 90 countries.

EXHIBIT 3: Supporting green finance development in emerging markets

Emerging markets face even bigger challenges than developed countries in financing climate-change initiatives. In this regard, UK institutions are proactively taking part in mobilising sustainable finance into emerging markets.

The City of London Corporation founded the UK-India Green Finance Working Group in 2019 to showcase best practice among London-based firms with an interest in sustainable infrastructure projects in India. Input from the working group helped to inform the report *Untapped Potential: Supercharging Green Finance in India*, which explores opportunities and challenges for sustainable finance in India and offers recommendations on how to drive forward the sector. The working group is a good example of how the UK financial services industry leverages its expertise to help develop sustainable finance in emerging markets.

The UK government has also committed to helping developing countries tackle climate change through the International Climate Finance (ICF). Between its inception in 2011 and 2020, the ICF mobilised £4.1 billion in public and £2.2 billion in private financing for climate change initiatives in developing countries. It supported 66 million people coping with the effects of climate change and provided improved access to clean energy for 33 million people, which avoided 31 million tonnes of greenhouse gas emissions.

UK institutions are proactively taking part in mobilising finance into emerging markets

$6.3 bn

The amount the ICF has mobilised from public and private financing for climate change.

Laying the commercial foundation for green finance

UK market infrastructures and standard-setters are thought leaders in promoting ESG integration and sustainability in their domain. They respond proactively to sustainable finance opportunities by introducing platforms and tools for commercialising and scaling up sustainable finance.

The ground for sustainable finance is not only prepared by the government and regulators. Market infrastructures and industry standard-setters also play an important part in laying the commercial foundations for sustainable finance. They provide the platforms and tools to develop and roll out sustainable finance products, as well as facilitating dialogues between market participants.

UK market infrastructures, such as London Stock Exchange Group (LSEG) and the London Metal Exchange (LME), have been the conduit of sustainable finance development in their respective market space.

London Stock Exchange (an LSEG business) has been named the greenest stock exchange across all global financial centres, with a suite of products and services designed to support sustainable finance.

London Stock Exchange is a sustainable finance hub connecting companies raising capital with sustainability-led investors. Its Group capabilities in data and analytics drive sustainable investment through research, data, benchmarking and indices.

London Stock Exchange plays an integral role in driving the global sustainable finance agenda. In response to the latest developments in climate-related disclosure, LSEG is co-chairing a United Nations Sustainable Stock Exchanges (UN SSE) workstream aimed at developing model guidance for exchanges and issuers to standardise disclosure practices worldwide in alignment with TCFD recommendations.

Figure 6: London Stock Exchange champions sustainable finance

Disclosure guidance	London Stock Exchange was the first major exchange to publish comprehensive ESG reporting guidance for its issuers and is expected to produce new climate-related disclosure guidance in 2021 in response to the UN SSE's model guidance.
Product innovations	The first exchange to provide a dedicated green bond segment, which later expanded into its Sustainable Bond Market, improving access, flexibility, and transparency for investors. In 2021, it became the first major exchange to offer a transition bond segment. Its world-first Green Economy Mark, established in 2019, identifies an investible universe of green equities beyond 'pure play' green sectors that generate 50% or more revenues from green environmental products and services.
Data and solutions	LSEG's Data and Analytics division – comprising FTSE Russell, a leading global index provider, and Refinitiv, one of the world's largest providers of financial markets data and infrastructure – offers a truly 360° view on ESG dimensions across companies, funds, and country level sovereign issuer data. The breadth of LSEG's ESG data, which includes green revenues and carbon data, ESG ratings and sustainability indexes, enables investors to incorporate sustainable investing into their portfolio allocation decisions. LSEG's climate-related solutions are also helping to shape the investment strategies of some of the world's largest institutional investors.
Thought leadership	LSEG is a thought leader in promoting best practice ESG disclosures and investments into green asset classes. It is also the first global stock exchange group to commit to net zero.

Sources

11 HM Government (2020), The Ten Point Plan for a Green Industrial Revolution.

Besides equities and bonds, the UK also leads discussions on sustainability opportunities in other financial products. For instance,

the LME pioneered sustainability discussions in the derivatives space.

In 2018, the LME proposed routes to responsible sourcing and later introduced the responsible sourcing requirements for all brands listed for good delivery on the LME. In late 2020, the LME launched its sustainability strategy, which included the roll-out of the *LMEpassport*, a digital credential register for metals and new contracts supporting the transition to a low-carbon economy. The new register serves as a tool to engage issuers and investors to explore climate finance opportunities. In response to the recommendations of the independent Taskforce on Scaling Voluntary Carbon Markets, **the UK is also exploring the opportunity to position the UK as the global voluntary carbon credits trading hub**.[11] Given the strength of London's financial innovation and global reach, the UK can provide the enabling environment that will allow global carbon credit trading activities to take off.

Developing globally relevant standards

Standard-setting bodies play an important role in building the framework and tools for commercialising sustainable finance. They articulate discussions around what defines sustainable finance activities and what information is needed to develop the products between market participants. The UK's standard-setting body, the British Standards Institution (BSI), is well aware of the need for a common language that can be used by investors and issuers and has made good progress in developing standards for sustainable finance.

London skyline

The BSI has rolled out the Sustainable Finance Standardisation Programme, in collaboration with the financial services industry and the Department for Business, Energy & Industrial Strategy (BEIS), to develop globally relevant, consensus-based standards for sustainable finance.

Within two years of its launch, the programme had published two UK-led Publicly Available Specifications (PAS), one on embedding sustainable finance principles in financial services organisations and one on the requirements for implementing and managing the process of sustainable investment. The BSI is planning a third PAS on sustainable finance products and funds.

The high concentration of global investors, businesses and financial services providers in the UK makes it the natural hub for international standard-setting.

High-profile organisations involved in the sustainability space – the International Financial Report Standards (IRFS) Foundation, the International Integrated Reporting Council (IIRC), CDP and the Climate Bonds Initiative (CBI) – all have offices in London. The new merger of the IIRC and the Sustainability Accounting Standards Board (SASB) – the Value Reporting Foundation – will also be headquartered in London, as well as in San Francisco. In addition, London is home to many international industry associations that are engaging in discussions and developing industry guidance for sustainable finance, such as the International Capital Market Association (ICMA), the Alternative Investment Management Association (AIMA) and the International Swaps and Derivatives Association (ISDA).

The UK offers unparalleled reach for communications between international standard-setters and market participants. Taking advantage of the proximity, global stakeholders can easily be engaged in one place.

Capital and capability to invest in green

The UK investment industry, including the asset owners, has the aspiration, capital and knowhow to invest in green, and has shown encouraging progress in allocating funds in accordance with the Principles for Responsible Investment. The UK is the perfect go-to location to attract funding into climate and sustainability initiatives.

Sources

12 Global Sustainable Investment Alliance (2018), 2018 Global Sustainable Investment Review.

13 As of February 2021, UN Principles for Responsible Investment.

14 In comparison with the Nordics, the Netherlands and the Africa & Middle East. UN PRI.

Investors typically approach ESG issues from a risk management perspective. ESG risks can affect investment returns, especially when natural disasters and paradigmatic shifts in economic activities can affect future asset valuations. For example, the global net-zero pledge to transition to a low-carbon economy could increase the likelihood of fossil fuels becoming stranded assets in the future. Investors are adopting a new approach that systematically integrates ESG risk factors in their strategies, focusing on projects for positive ESG performance relative to industry peers and investing in targeted sustainability objectives.[12]

£8.8tn

assets managed under UK PRI signatories

UK investors' efforts in sustainable investment can be reflected by the encouraging level of support for the United Nations Principles for Responsible Investment (PRI) programme. There are 642 signatories in the UK, with £8.8 trillion assets under management, second only to the US.[13] Among these 642 signatories, 72% are investment managers and 12% asset owners. Almost all leading institutional investors in the UK are PRI signatories. These investors have made a public commitment to incorporate ESG issues into their investment practices. UK signatories also top the PRI's investors assessment on implementation of responsible investment – along with the Nordics, the UK has the highest share (70%) of signatories graded A or A+.[14]

While many markets in the world struggle to accelerate investment in climate and sustainability initiatives due to a lack of investor interest, the UK's sustainable finance ecosystem benefits from an investment industry that has strong ESG awareness, capability and endeavour to invest in green issues. This represents solid demand for sustainable finance activities and products.

£55 bn

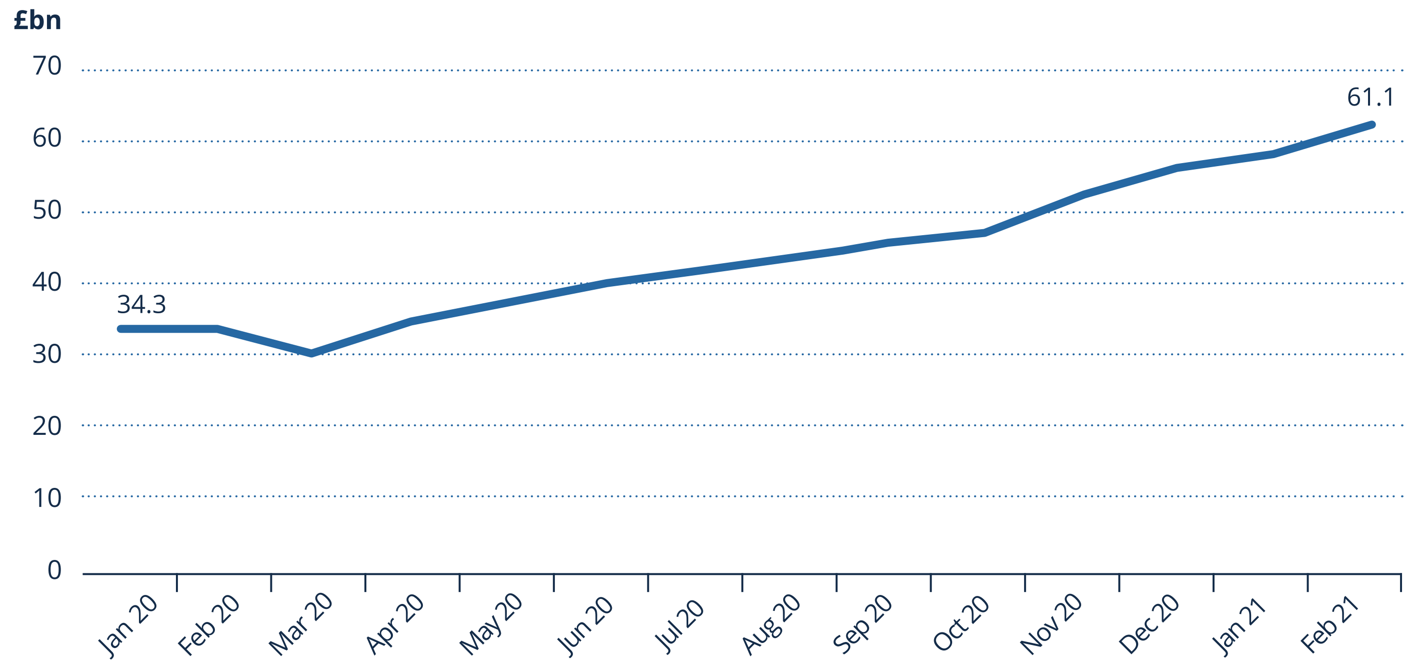
The value of responsible investment (RI) funds under management in 2020

EXHIBIT 4: Net zero pledges by UK asset owners

A number of UK asset owners and investment managers including Aviva, BT Pension Scheme, the Church of England and Legal & General are part of the Net-Zero Asset Owner Alliance. In 2021 Aviva announced its plan for all its UK pension customers to put more than 20% of new savings into sustainable impact funds or net-zero-aligned funds by the end of 2022 as part of its net-zero pledge.

From a service offering perspective, responsible investment also creates a new layer of value in investment managers' services by helping clients to minimise their ESG risk exposure and build a portfolio that can generate positive ESG impacts. Results from the Global Sustainable Investment Alliance (GSIA) survey showed that ESG was strongly embedded in the UK's investment industry, with firms agile in adopting the latest standards. The UK had the highest share (50%) of survey respondents who had already incorporated TCFD into their investment analysis, compared with 47% in the US and just over 20% in Europe.[15]

Figure 7: Responsible investment funds under management steadily growing throughout 2020



Source: The Investment Association

Sources

15 Global Sustainable Investment Alliance (2019). Sustainable Investor Poll on TCFD Implementation.

16 Investment Association data on responsible investments has been collected using the Global Sustainable Investment Alliance (GSIA) definitions. Responsible investment incorporates firm-level and fund-level components. The data presented here is at the fund level where funds are pursuing one or more of the following responsible investment strategies: negative screening; positive screening; norms-based screening; sustainability themed investing and impact/ community investing.

Integrating ESG into investment practices is just the start of the journey. Sustainable finance only takes off when funds are being allocated into qualified projects. The UK investment industry demonstrates promising progress in allocating funds in accordance with responsible investment principles. In 2020, the value of responsible investment[16] (RI) funds under management almost doubled to £55 billion from the previous year, while the value of net retail sales in responsible investments funds more than tripled to £10 billion. Even though the share of RI funds in the UK's funds under management is still relatively small at 4.5%, its growth has picked up momentum rapidly and shows huge potential for further increases. The impressive growth marks UK investors' strong appetite for sustainable investment.

The UK's investment industry manages a large pool of capital with a global client base – £9.9 trillion of assets, of which £3.6 trillion are from overseas client accounts. The large international pool of capital available is ideal for raising funds for sustainable projects. The UK investment industry is equipped with the capital, capability and desire to channel investments into a greener future.

Responsible investment also creates a new layer of value in investment managers' services by helping clients to minimise their ESG risk exposure and build a portfolio that can generate positive ESG impacts.

Sources

17 Green Finance Institute (2020), State of Green Banks 2020.

18 Global Wind Energy Council (2020), Global Offshore Wind Report.

EXHIBIT 5: Green Investment Bank – catalysing green infrastructure investment in the UK and emerging markets

The UK Green Investment Bank (UKGIB), founded in 2012, is a good example of the public and private sectors joining forces to catalyse investment in green infrastructure.

The UKGIB was created by the Department for Business, Energy & Industrial Strategy (BEIS) as a response to the passage of the Climate Change Act in 2008, with £3 billion provided for capitalisation from the Chancellor. Within three years of its establishment, UKGIB nearly tripled the investment in UK green infrastructure.[17] It managed the world's first and the UK's largest dedicated offshore wind fund, which has more than £1 billion in assets under management. For every £1 the UKGIB invested, £3 in private sector investment was mobilised.

The UKGIB demonstrated great success in mobilising investment in the offshore wind market and contributed to establishing the UK's status as the world's largest offshore wind market.[18]

The UKGIB was sold to the Macquarie Group in 2017 and became the Green Investment Group (GIG), a private green bank. GIG continues to finance green projects in the UK and worldwide. UK Climate Investments (UKCI), a joint venture between GIG and BEIS, is part of the UK's international climate finance commitment. The UKCI has committed more than £70 million to renewable projects in sub-Saharan Africa and supported various projects that invest in renewable energy in India.

The UKCI has committed over £70 million to renewable projects projects in sub-Saharan Africa and supported various projects that invest in renewable energy in India.

CASE STUDY 1: Redington – providing investment advice in alignment with the net-zero goal

Asset owners and managers are increasingly recognising, and committing to, the goals of the Paris Agreement, achieving net-zero emissions by 2050 at the latest. Redington, a UK-based investment consultancy, serves as an excellent example of how the contributions of the asset management industry can help achieve this global net-zero objective.

Redington – primarily based in London but with operations in Bristol, Germany and China – focuses on advising pension funds, wealth managers, the Local Government Pension Scheme, charities and insurance companies on achieving the best possible outcomes for their end beneficiaries, while managing their risk. The consultancy sees sustainability as a foundation of its company ethos and has been a full supporter of asset management-related sustainability initiatives since it was founded more than 15 years ago. The firm first advised on renewable energy investments 10 years ago, optimistic about the long-term opportunities and positive ESG impacts in this space. Redington is also a PRI signatory and an adopter of the TCFD and UK Stewardship Code.

In 2021, Redington committed to aligning its default client advice with the goal of reaching net zero by 2050. Advising on more than £500 billion of assets for its clients, the firm estimated that its net-zero advice could help clients reduce their portfolios' carbon emissions by 50% by 2030. Redington's responsible investment services cover three key areas: managing climate risk, reducing carbon emissions, and achieving real-world impact. Its services cover the whole investment cycle, from goal setting and risk assessment, to asset allocation and implementation, with reporting a key element of the process.

Redington observed very positive interest in responsible investment from its clients, especially institutional investors. "A vast majority of our clients are UK investors. We see a particularly strong understanding of sustainability from local authority pension schemes and corporate pensions. Even clients with a less sophisticated ESG understanding are actively seeking solutions. UK investors, along with the Nordics, are most advanced in terms of sustainability awareness," said Mitesh Sheth, CEO of Redington.

Mitesh is confident about the development of sustainable finance within the UK, and believes the UK is leading the way:

"Government commitment and the regulatory environment in the UK are actively encouraging sustainable finance development. The UK's net-zero commitment is good for engaging financial institutions. It helps assets owners and managers to understand the materiality of climate change and encourages them to take actions. With strong expertise and breadth within the global asset management industry, the UK is in a good position to be at the centre of global sustainable finance."

Accelerating green investment opportunities

With strong climate change commitments and world-class professional services available, the UK has attracted a highly international profile of issuers to finance their sustainability objectives. The UK is an excellent platform for issuers and corporates to raise funds, as well as for investors to access global sustainable investment opportunities.

Even though the global net-zero initiatives are creating more projects and encouraging investment in sustainability objectives, funds can only be channelled to achieve sustainability objectives when qualified projects or products are available. In the sustainable finance ecosystem, issuers and professional services providers play a big part in supplying qualified projects or financial products that fund sustainability objectives.

Number of sustainable finance projects set to grow

The UK's ambitious net-zero target and encompassing initiatives to make the financial system greener will create a new pipeline of qualified projects for sustainable finance. The government's *Ten Point Plan for a Green Industrial Revolution* estimates that the UK's path to net-zero has the potential to deliver £40 billion of private investment by 2030. In addition, with increasing guidance in and requirements for ESG-related disclosure, corporates will be looking into the opportunities for using sustainable finance instruments to finance their objectives. In the years to come, the 'financing green' and 'greening finance' drives will take effect together to spur the number of qualified projects for sustainable finance.

UK issuers have strong ESG awareness and are responding to the new sustainability opportunities. A global survey conducted by HSBC reveals that UK companies lead the way on commitment to sustainability. According to the survey, 75% of UK businesses felt they had an active role to play in delivering the UN Sustainable Development Goals, while only 58% of businesses in France, Spain and the Netherlands thought so.[19] Two-thirds of UK companies have set targets for ESG measures.[20] ESG disclosure, the key to creating qualified sustainable finance projects and products, is widely practised by UK businesses. The UK is among the top 10 jurisdictions where companies include sustainability information in annual reports.[21] All listed companies in the UK report on a set of ESG-related information, including greenhouse gas emissions, human rights and diversity, as required by the listing rules. UK issuers' ESG awareness and their relative maturity in ESG reporting mean they are ready to roll out more sustainable finance projects and products.

75%

of UK businesses feel they had an active role to play in delivering the UN sustainable development goals

Sources

19 HSBC (2019), Navigator Report 2019.

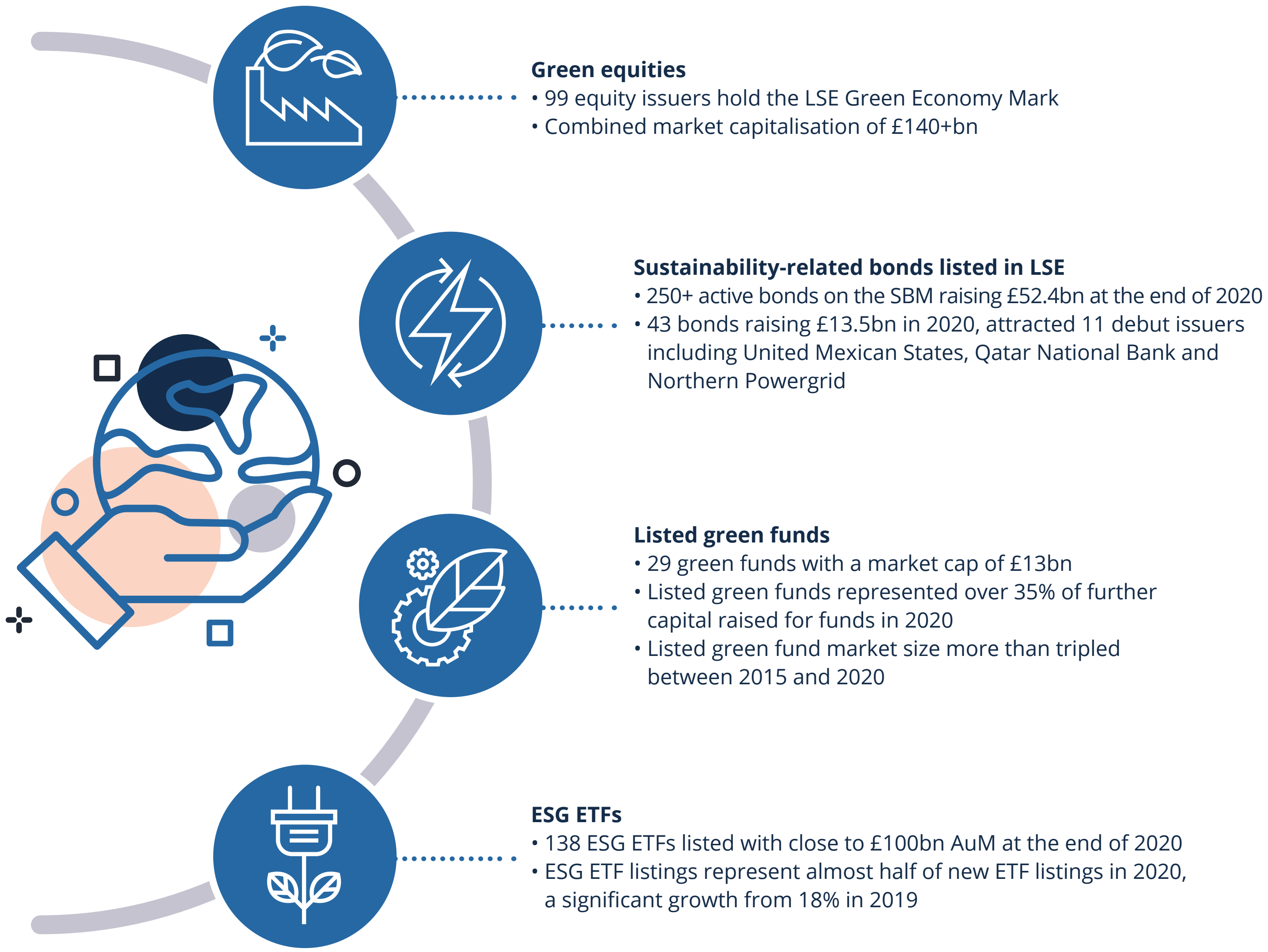
20 HSBC (2020), Navigator Report 2020.

21 KPMG (2020), The Time Has Come: The KPMG Survey of Sustainability Reporting 2020.

The hub for UK and international issuers

As the only global financial centre that is also a green finance hub supported by a strong professional services cluster, the UK attracts a highly international mix of issuers to finance their sustainability objectives. The strong uptake in sustainability-related products launched in the UK over the past year shows that issuers are recognising the opportunities UK platforms are offering (see Figure 8). The issuance activities at the London Stock Exchange's Sustainable Bond Market (SBM) are good examples of the UK's role as the international fundraising platform – among the 285 bonds and issuers listed in this segment, 39% are international issuers. They are incorporated from 22 jurisdictions outside the UK covering all regions of the world. London Stock Exchange is home to the first certified green bonds out of China, India the Middle East and Canada, and the first sovereign green bonds from Asia-Pacific and the Americas. Instruments listed on the SBM are traded in 17 currencies. The UK is not only a hub that serves local issuers but also international issuers from all geographies. The UK is where investors meet global investment opportunities.

Figure 8: Strong uptake in listed sustainability-related products in the UK in 2020



Source: London Stock Exchange Group

Best-in-class professional services and knowledge

Sources

22 Long Finance, Z/Yen, The Global Green Finance Index 2021.

Professional services providers make up the comprehensive sustainable finance ecosystem in the UK. Data and analytics providers, rating agencies, consultancies and legal advisers are crucial enablers in this ecosystem. They play an important role in product creation, as well as helping to channel investment flows to accomplish sustainability objectives. The UK is home to a full suite of professional services companies providing such expertise, and this strength is recognised by the Global Green Finance Index (GGFI).[22]

According to the GGFI, London ranks ahead of other global financial centres such as New York, Singapore, Frankfurt and Tokyo in terms of its green finance offer. London tops the world in terms of quality of professional services and knowledge.

The UK's business-friendly operating environment attracts a strong professional services cluster, with a good mix of multinationals as well as boutiques and start-ups to serve niche customer needs. Professional services also benefit from an open, innovative and international business environment in the UK, which serves them as the enabling platform to introduce and scale up their sustainable finance business. Even though businesses can acquire services from different places with relatively less geographical frictions these days, the clusters of best-in-class professional services remains important. A high concentration of top-quality providers with global reach makes the UK the perfect one-stop shop to acquire all the services needed to conduct sustainable finance activities.

EXHIBIT 6: FTSE Russell a global leader in ESG data and analytics

FTSE Russell is a fine example of a UK financial services provider with a global footprint that leads the development of sustainable finance. FTSE launched the FTSE4Good Index Series in 2001, when sustainable investment was considered a rather niche area in investment. Over time, as ESG integration has gradually become the norm, the sustainable investment solutions provided by FTSE Russell have also expanded.

The FTSE4Good Index Series is designed to measure the performance of companies with strong ESG practices. It can be used for benchmarking, research, referencing and the creation of financial products. Twenty years after its launch, FTSE4Good has expanded to truly global coverage. Apart from UK companies, the indexes also cover listed companies in North America, Europe, developed Asia-Pacific and more than 20 emerging markets. The product is particularly well-received in Asia – the FTSE4Good ASEAN 5 Index selects constituents from the leading stock exchanges in the ASEAN 5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand). FTSE Russell also partnered with Taiwan Index Plus Corporation (TIP) on the FTSE4Good TIP Taiwan ESG Index.

Another important offering of FTSE Russell is its intellectual property. The Green Revenues 2.0 data model is an analytical tool that is designed to help the financial markets better identify companies with products making a contribution to the transition to a green economy. It is the backbone of the London Stock Exchange's Green Economy Mark, which is used to identify green listed companies and issuers. Green Revenues 2.0 is in alignment with main standards such as the EU taxonomy and TCFD. This analytical tool can serve a wide range of uses, from developing investment strategies to regulatory reporting. For example, Aberdeen Standard Investments uses the data model for its multi-asset climate solutions fund to comply with the EU taxonomy.

Figure 9: Professional services' role in green finance

CASE STUDY 2: Arup – supporting sustainable finance with technical expertise

Besides financial services providers, other professional services also have important roles to play in the sustainable finance ecosystem. Arup, a global consultancy headquartered in London which provides professional services related to all aspects of the built environment, supports green finance activities through a wide range of sustainability consulting services.

"Investing in impacts" is one of the key objectives of sustainable finance. For a project to be qualified as "green" or "sustainable", it often requires technical expertise in architectural design, engineering and environmental science to define, quantify and measure the impacts. Some of the more recent sustainable finance related regulations, such as the "do no significant harm" principle in the EU Taxonomy, also require deep technical expertise for implementation and compliance. In addition to the traditional cost, efficiency and technical advisory, Arup helps its clients to set out their sustainability impact strategies, advises on feasibility and impact targets, and provides on-going evaluation of sustainability impacts. Arup's technical advisory bridges normative sustainability objectives with scientific data and assessments, which make sustainable finance options available to their clients. For example, 16 different Arup disciplines produced the technical data on construction techniques, supply chain, water and energy usage and the innovative cleantech that enabled a hotel in Central London to obtain a £175 million green loan from a UK Bank.

Arup's technical support is not only valuable in developing projects for better impacts but also useful for due diligence, portfolio assessment, compliance and third-party verification purposes in sustainable finance. For instance, Arup helped the Green Investment Group (GIG) to make a major green energy acquisition.

The Arup team provided technical and operational due diligence advisory services to support the business evaluation process, which combines technical expertise with a focus on the financial and economic implications for GIG. Arup also helps their clients to develop qualified sustainable finance projects by incorporating sustainability considerations at the design stage and producing the relevant technical data.

In additional to its strong technical capability, expertise in sustainability related regulations is another strength of Arup. Benefiting from its UK-headquarter location, Arup operates in an open and innovative environment that bolsters knowledge exchange and experimentation with new ideas. Its international network of professionals, both in the UK and in 33 countries worldwide, are able to understand and bridge local regulations with international best practices.

"The UK has always been on the forefront of regulatory changes in finance, technology and environment. The open and agile regulatory environment in the UK enables us to build up strong knowledge and expertise in sustainability-related regulations. We are able to reference experience and practices across disciplines and geographies and deliver an international bird's eye-view to our clients",

said Graham Smith, Green Finance Expert in Arup Advisory Services.

CASE STUDY 3: iClima Earth a benchmarking solution that channels funding to net-zero

To channel and scale up funding to combat climate change, professional services providers are generating innovative solutions that identify green investment opportunities. iClima Earth is a benchmark provider based in London that offers a focused vision – identifying public companies that are directly offering solutions to decarbonisation. "Most ESG ratings and investment products focus on companies that reduce their own emissions. We want to move beyond this 'do less harm' approach to identifying companies that are actively making impacts," said Gabriela Herculano, CEO of iClima Earth.

iClima Earth developed a proprietary rule-based methodology based on ESG-related standards and regulations, and climate change solutions from scientists, policymakers, businesses and scholars. It assesses the impacts of companies that contribute to decarbonisation quantitatively and provides equity benchmarking that estimates the avoidance of CO_2. At the moment, close to 200 public companies in 29 different segments are identified. The benchmark is used for direct indexing mainly by professional investors.

In December 2020, iClima Earth launched the first ESG UCITS ETF, which purely focuses on carbon emission avoidance. The fund is traded in the UK, Italy, Germany and Switzerland, with more than £31 million assets under management. As a company with a strong will to drive impacts, iClima Earth recognises the strategic value in being physically located in London. "London is an excellent place to make the case heard and drive global impacts. Besides investors, all related stakeholders, such as data providers and third-party opinion providers, have a presence in the UK. It is ideal for engagement and the exchange of ideas. The dense networks of businesses, global policymakers and academics are also perfect for promoting thought leadership and amplifying impacts," said Gabriela.

Going forward, iClima Earth aims to democratise access to sustainable investment products by providing data and referencing benchmarks to retail investors and expanding its footprint to the US and Asia. The business believes London provides the global reach, talent pool and credibility that best support its growth ambitions.

CASE STUDY 4: Nossa Data – how the UK's sustainable finance ecosystem provides the growth environment for supporting services

Companies are seeing increasing demand for more and better ESG data disclosure to support their corporate governance and finance objectives. However, it is not an easy task to articulate data that is relevant for the purpose and to comply with different reporting standards. The UK's comprehensive green finance ecosystem attracted Nossa Data – a software company that provides companies with data management and analytics tools for ESG metrics – to start its business in London and exploit the new demand for ESG reporting solutions.

The main reason for Nossa Data to be based in London is its potential client base, both in terms of the number of companies in the country and their sophistication in ESG thinking. Nossa Data observed demand for ESG reporting solutions not only from listed companies needing ESG reporting functions for investor relations purposes, but also from private companies. Most of its clients did not have ESG reporting solutions in place before acquiring its services. The company found clients to be highly receptive to new solutions, with positive attitudes towards changes around the ESG and reporting landscape and the climate agenda.

"UK companies are very aware of ESG issues and the new green finance opportunities. In nearly all the companies we spoke to, there is at least one senior ESG member of staff based in London, and many of them are creating new ESG roles. The companies here also demonstrate more advanced ESG thinking compared with other parts of the world. They are looking into the ESG data to contribute to the climate agenda by improving their own operations, as well as raising sustainability-linked financing," said Julianne Sloane, co-founder of Nossa Data.

Other than the demand for the company's products, Julianne and and the other co-founder Irina Dumitrescu believed London offered the ideal soil for them to grow. The City's well-established fintech sector not only provides a suitable talent pool for them to deliver their services but also pathways for future growth. Julianne said: "We benefit from the great mix of finance, tech and ESG expertise in the City. London gives us great exposure to opportunities in the UK and Europe, as well as the US. The innovative culture and established fintech ecosystem in the UK also give us access to growth funding to scale up our business. We are in discussions with a number of strategic investors thanks to the dense network of investors in London."

Skills and thought leadership for sustainable finance

UK education and research institutions have a strong niche in sustainable finance. They provide skills training and innovations that support sustainable finance development in the UK and the world.

Sources

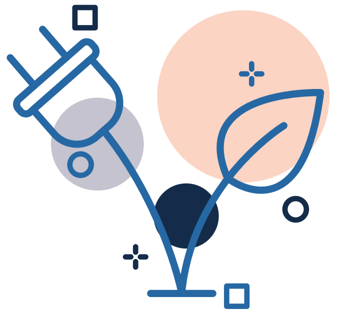
23 City of London Corporation (2021), Our Global Offer To Business: London And The UK's Competitive Strengths In A Changing World.

24 Corporate Knights (2020), 2020 Better World MBA ranking results.

The UK's strong sustainability-related services offerings are underpinned by education and research that equip staff with the relevant skillsets for sustainable development.

The City of London Corporation's competitiveness benchmarking study reveals that UK-based business schools have higher average sustainability scores than those located in other global financial centres.[23] Among the top five schools in the 2020 Better World MBA ranking, three are from the UK,[24] showcasing UK institutions' lead in providing business education for sustainable development.

UK institutions are also developing programmes that serve the demand for new skills and thinking to tackle issues in sustainability, such as Imperial College's programme on climate change, management and finance. Leading UK universities also offer a wide range of short courses on sustainable finance, climate-related financial risks and managing ESG issues. Apart from academic institutions, professional services bodies such as the CFA Institute and the Confederation of British Industry (CBI) also offer ESG and green finance-related qualifications to their members.



High-quality UK education has been serving financial services professionals in the UK and worldwide. The Cambridge Institute for Sustainability Leadership, for example, delivers executive education in the UK, Australia and South Africa. Virtual education in the post-pandemic era gives UK educational institutions an opportunity to serve more countries more easily.

UK universities are also active in research and thought leadership in sustainable finance. Besides running their own research programmes on the topic, UK institutions participate in international research collaborations. UK research universities have a strong presence in the Global Research Alliance for Sustainable Finance and Investment, set up in 2017 to promote collaboration and exchange in academic research. Seven UK universities, five of which are based in London, joined forces with 20 other research institutions in the world through this initiative.

Quality UK education has been serving financial services professionals in the UK and worldwide.

To further promote synergies between research and business practices, the UK government will provide £10 million in funding to set up a green finance research centre based in London and Leeds. The centre is set to provide data and analytics to the private sector to better support ESG integration in investment and business decisions. The UK's education and research will continue to nurture talents and innovations that build on the green finance services offering in the UK.

EXHIBIT 7: The Green Finance Education Charter

In 2020, the UK government, the Green Finance Institute and 12 leading financial professional bodies launched the world's first Green Finance Education Charter. This marked a significant commitment by chartered and professional bodies in the UK and internationally to integrate green finance and sustainability into their core curricula, new qualifications and continued professional development of their members. The charter signatories cover virtually all financial services professions.

Looking ahead

The UK is ready to play to its strengths in financial services to contribute to the net-zero transition and sustainable development in the future. In the UK, we have the critical mass of capital and expertise to develop the standards, measurements and products, and to invest in net-zero projects.

Climate change is the biggest challenge facing us all. Nations around the world are tackling the challenge as a much higher priority and with greater urgency. The UK's leadership around the climate agenda and international finance also places the nation in a unique position to mobilise funding across public and private sectors and across borders. Investors, corporates, governments and regulators from all over the world can find the right platform and expertise they need in the UK to pursue and scale up their sustainable finance objectives.

Acknowledgments

The City of London would like to thank all interviewees and reviewers of this report who kindly gave their time to participate in this study.

Graham Smith	Green Finance Expert, Arup
James Kenny	Head of Global Affairs/PR, Arup
Gabriela Herculano	CEO, iClima Earth
Amy Smith	Sustainable Finance Marketing Manager, London Stock Exchange Group
Data & Analytics team	London Stock Exchange Group
Mitesh Sheth	CEO, Redington
Julianne Sloane	Co-founder, Nossa Data

About The Global City:

The Global City campaign is The City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

theglobalcity.uk

CITY OF LONDON | THE GLOBAL CITY

About the City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:
- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and characterof the City, London and the UK for the benefit of people who live, work and visit here.

www.cityofondon.gov.uk