

Ministerial Foreword



Rt Hon Greg Clark MP
Secretary of State for
Business, Energy and
Industrial Strategy



Rt Hon Philip Hammond MP
Chancellor of the
Exchequer

The UK has a proud record in tackling climate change and protecting the environment. Transforming our financial system for a greener future is important for us to continue to lead the way.

We were the first country in the world to set long-term, legally binding emissions reduction targets, through the Climate Change Act 2008. We have led the G20 in decarbonising our economy. And, through our 25 Year Environment Plan, we are delivering our commitment to leave the environment in better condition than we found it.

But tackling climate change and environmental degradation is only just beginning. By legislating for net zero emissions by 2050, we are responding to the latest science by raising our ambition. Meeting our objectives will require unprecedented levels of investment in green and low carbon technologies, services and infrastructure. Green finance will be central to providing the flows of capital we need.

The challenges in creating a sustainable and resilient economy are great - but the opportunities are greater still. With a leading financial services sector, the UK is ideally placed

to seize the commercial potential arising from this transition, which is why green finance is at the heart of the Government's approach, and a pillar of both our Clean Growth Strategy and Industrial Strategy. It will also help ensure our financial system is robust and agile enough to respond to the profound challenges that climate change and the transition to a clean and resilient economy bring with them.

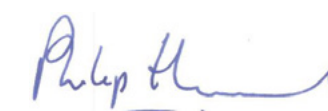
Building on the important work of the Green Finance Taskforce, this first Green Finance Strategy sets out how we will achieve this ambition and accelerate the growth of green finance, from greening the global financial system and catalysing the investment we need, to driving innovation in financial products and building skills across the financial sector.

This Strategy is also a call for collective action, setting out how we will work with industry, regulators, academia and the newly launched Green Finance Institute to deliver the urgent and far reaching change that is needed for a greener, more sustainable and prosperous future.

There is no doubt about the scale of the environmental challenge that we face. To tackle that challenge effectively and sustainably requires us to harness the delivery capacity of the market economy - and in particular to mobilise the enormous resources of our capital markets through Green Finance. This Strategy represents our commitment to taking the steps that will ensure that the UK's Green Finance sector is turbo-charged to play a crucial role in protecting the future of our planet for generations to come.



Rt Hon Greg Clark MP

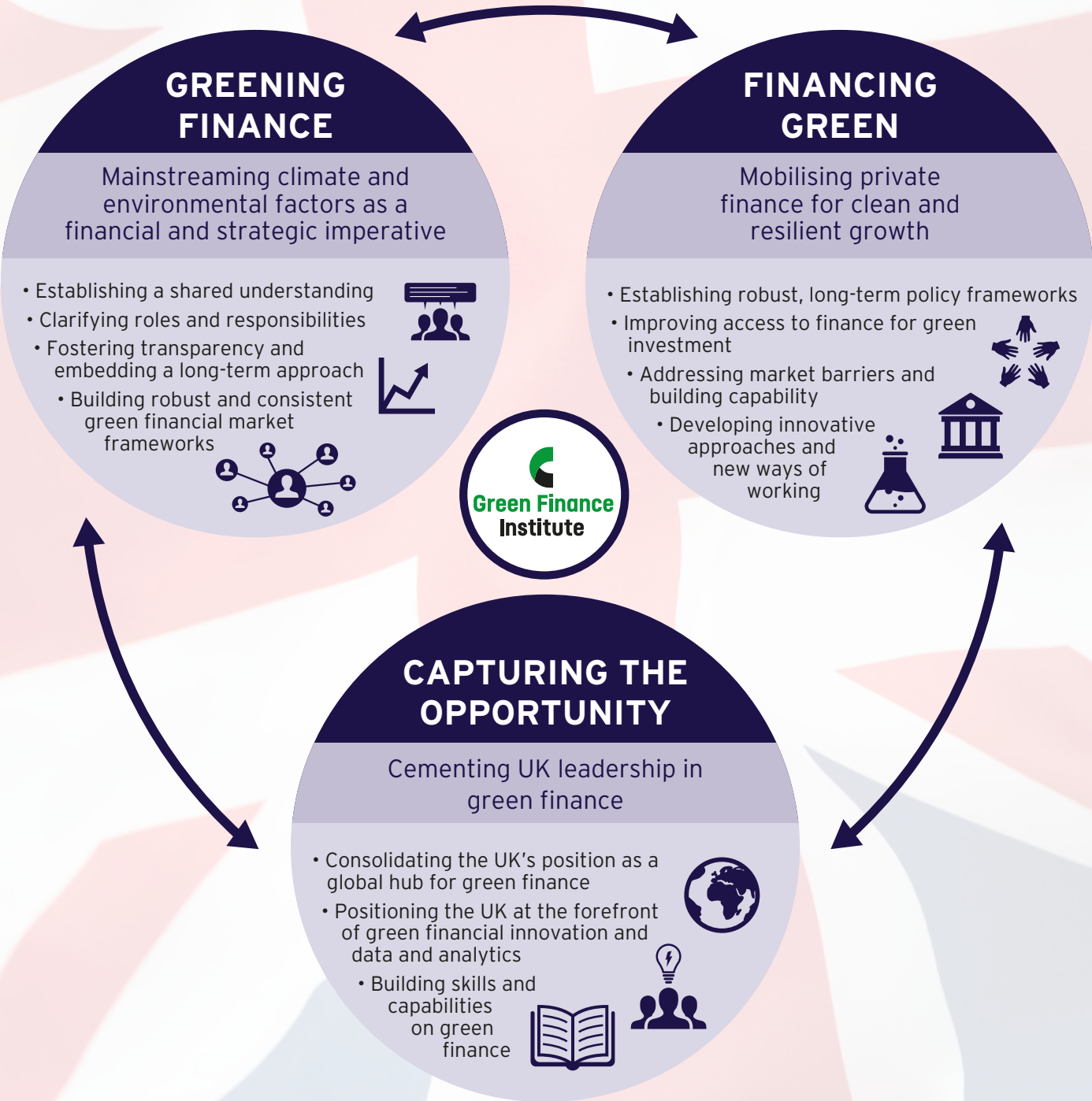


Rt Hon Philip Hammond MP



The UK's Green Finance Strategy

- Aligning private sector financial flows with clean, environmentally sustainable and resilient growth.
- Strengthening the competitiveness of the UK financial services sector.



Executive summary

Climate change and the degradation of the world's natural capital assets are defining issues of our time. The world is getting warmer, sea levels are rising, pollution is costing lives and biodiversity is collapsing. The recent Intergovernmental Science and Policy Platform on Biodiversity and Ecosystems Services (IPBES) Global Assessment and the Intergovernmental Panel on Climate Change (IPCC) Special Report on 1.5°C are both timely reminders of the urgency of action.

The UK's new target to reach net zero greenhouse gas emissions by 2050 means we are the first major economy in the world to set such a target into law. We are also introducing a landmark Environment Bill, which will place environmental ambition and accountability at the very heart of government and put our flagship 25 Year Environment Plan into law.

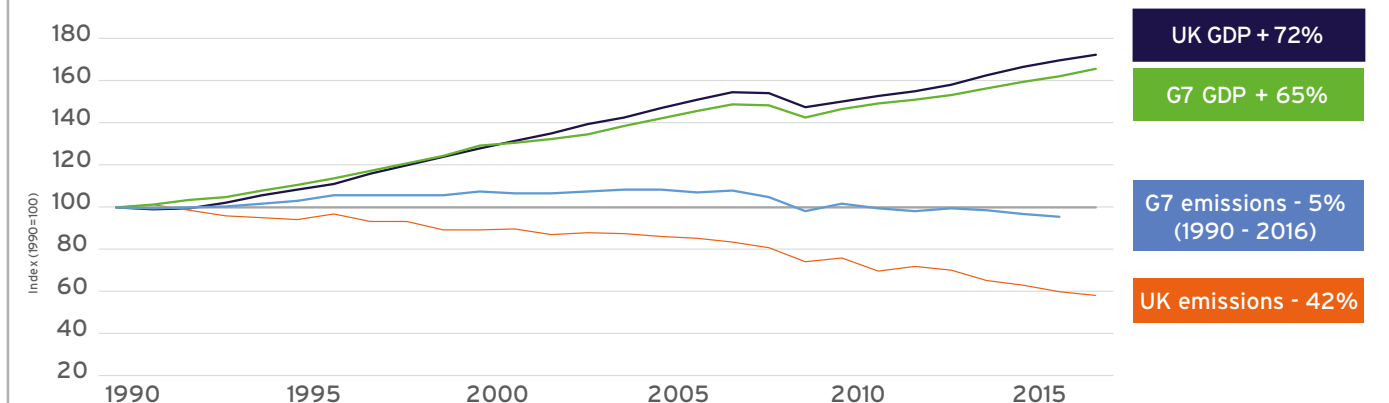
We need to shift to a world where we are at net zero emissions, and deliver our commitment that this will be the first generation in our history to leave the environment in a better condition than we found it. This means systemic changes across all parts of our economy; and in particular delivering a global financial system that supports and enables these outcomes. This strategy is our first step towards delivering that vision.

The global shift towards cleaner, resilient growth

As the international community begins to take the action that this challenge demands, a significant transformation is beginning in the global economy towards cleaner, more resilient economic growth. We expect that countries will increase their commitments and accelerate this transition at COP26 in 2020, which the UK has bid to host in partnership with Italy¹. The re-allocation of tens of trillions of dollars of capital towards green investment offers the potential to reshape cities, energy systems and land use around the world. The nature of this investment over the coming decades will determine the future of our climate, the natural world and the resilience of our communities. It also presents a substantial commercial opportunity for the UK financial sector.

As recently noted by the International Energy Agency, the UK has led the way in the transition to a low carbon economy². Since 1990, we have grown our economy by two-thirds while reducing our carbon emissions by over 40%, the strongest performance of any G7 country. There are already almost 400,000 jobs in low carbon businesses and

UK vs G7 GDP and Emissions



Source: World Bank, UNFCCC, ONS, BEIS Greenhouse Gas Inventory.

their supply chains across the country³ and clean growth sits at the heart of the UK's Industrial Strategy as one of four 'Grand Challenges'.

The Government has a proud pedigree of climate and environmental leadership, such as the UK Climate Change Act, Clean Growth Strategy, 25 Year Environment Plan and the National Adaptation Programme and now this Green Finance Strategy. As we move towards a net zero economy, finance will play a crucial role in enabling changes to our homes, how we travel and our agriculture. The UK has the opportunity to lead the way in clean, climate resilient growth that protects our natural environment.

Transforming the Financial System

As the financial risks and opportunities from the low carbon transition become apparent, a second, equally important, transformation is also underway: that of the financial system. This transformation moves beyond just funding green projects to ensuring climate and environmental factors are fully integrated into mainstream financial decision making across all sectors and asset classes.

And here too, the UK has led the way. The Green Finance Taskforce report, published in March 2018, was a landmark in the development of UK green finance. The Bank of England has played a pivotal role, both domestically and internationally, to ensure climate change is considered a mainstream and far-reaching financial risk, as well as one that requires action today. UK firms have also played a leading role at home and abroad, with banks, insurers, asset managers and pension funds in the vanguard of green financial innovation, supported by a rich ecosystem of civil society, business, academia and technical experts.

Cementing UK leadership

With our track record on clean growth and a world-leading financial sector, the UK is well-placed to seize the economic benefits of green finance. As the Industrial Strategy demonstrates, this is a win-win for our climate and environmental

ambitions, as well as further enhancing the competitiveness of the UK's real economy and financial services sector. Leadership on green finance will enable the UK to maximise the economic opportunities of the global and domestic shifts to clean and resilient growth.

Progress is undoubtedly being made. 70% of banks in the UK now consider climate change as a financial risk⁴, and green financial products are increasingly becoming more widespread in the market. But much more needs to be done. Only 10% of banks in the UK are taking a long-term strategic approach to managing the financial risks from climate change⁵, and the total global and domestic value of outstanding green bonds is only a fraction of the financing required. And more needs to be done to ensure the physical and transition risks from climate change are fully taken into account so as not to undermine the future resilience of individual investments and the wider economy.

Delivering an ambitious and credible Green Finance Strategy

Our Green Finance Strategy supports the UK's economic policy for strong, sustainable and balanced growth, the delivery of our modern Industrial Strategy and our domestic and international commitments on climate change, the environment and sustainable development.

It is informed by the private sector and wider stakeholders, and is, in part, a response to the recommendations of the Green Finance Taskforce, chaired by Sir Roger Gifford. The Taskforce is a leading example of the cross-sector collaboration that the strategy seeks to advance. To this end the Government has already taken action to implement its recommendations ahead of the publication of this strategy, such as announcing the establishment of the Green Finance Institute (GFI). As the UK's principal forum for collaboration between the public and private sector with respect to green finance, the GFI will play an integral role in supporting delivery of our Green Finance Strategy and driving the mainstreaming of green finance in the UK and abroad.

Strategy and Objectives

Our Strategy has two objectives, and three strategic pillars to achieve them:

OBJECTIVES

To align private sector financial flows with clean, environmentally sustainable and resilient growth, supported by Government action.

To strengthen the competitiveness of the UK financial sector.

STRATEGY

Chapter 1 Greening Finance

Ensuring current and future financial risks and opportunities from climate and environmental factors are integrated into mainstream financial decision making, and that markets for green financial products are robust in nature.



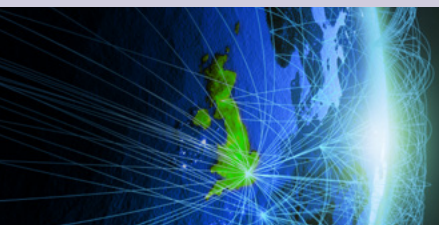
Chapter 2 Financing Green

Accelerating finance to support the delivery of the UK's carbon targets and clean growth, resilience and environmental ambitions, as well as international objectives.



Chapter 3 Capturing the Opportunity

Ensuring UK financial services capture the domestic and international commercial opportunities arising from the 'greening of finance', such as climate related data and analytics, and from 'financing green', such as new green financial products and services.



This Strategy is an ambitious package, bringing together work from across the Government, regulators and the private sector. We will be co-ordinating closely with our international partners to achieve our objectives.

Greening Finance

The transition to a green financial system means fundamental changes to the way decisions are made across the economy. To achieve the goals of the Paris Agreement and our wider environmental ambitions, all finance will need to incorporate the financial risks and opportunities presented by climate change and other environmental challenges.

There is increasing international recognition of the need to integrate climate and environmental factors into mainstream financial decision-making. One of the most influential initiatives to emerge is the Financial Stability Board's private sector Task Force on Climate-related Financial Disclosures (TCFD), supported by Mark Carney and chaired by Michael Bloomberg. This has been endorsed by institutions representing \$118 trillion of assets globally⁶. An increasingly large proportion of the private sector is now beginning to implement the TCFD recommendations and in September 2017, the UK became one of the first countries to formally endorse them.

Alongside the private sector, central banks and supervisors are also taking action to address the far-reaching financial risks associated with climate change. World leaders also took notice in 2016, and welcomed the work of the G20's Green Finance Study Group⁷, co-chaired by the UK and China.

Building on the UK's existing leadership, the first chapter of this strategy sets out the actions we are taking to ensure climate and environmental factors are recognised and acted upon as a matter of strategic and financial imperative. Our strategy focuses on four elements:

- Establishing a shared understanding;
- Clarifying roles and responsibilities;
- Fostering transparency and embedding a long-term approach; and
- Building robust and consistent green financial market frameworks.

The ambitious actions we are taking include:

- The Government setting out its expectation for all listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022;
- Establishing a joint taskforce with UK regulators, chaired by Government, which will examine the most effective way to approach disclosure, including exploring the appropriateness of mandatory reporting;
- Supporting quality disclosures through data and guidance, such as that being prepared for occupational pensions schemes by a new Government and regulator sponsored working group;
- Clarifying responsibilities for the Prudential Regulation Authority, the Financial Conduct Authority (FCA) and the Financial Policy Committee to have regard to the Paris Agreement when carrying out their duties, and including climate-related financial issues in Government's allocation letter to The Pensions Regulator;
- Working with industry and the British Standards Institution to develop a set of Sustainable Finance Standards, and

chairing a new International Organisation for Standardisation (ISO) Technical Committee on Sustainable Finance;

- Working with the FCA and Bank of England, including through the Fair and Effective Markets Review, to consider steps that can be taken to understand the potential or actual barriers to the growth and effectiveness of green finance markets; and
- Working with international partners to catalyse market-led action on enhancing nature-related financial disclosures. This will complement the recently announced global review of the economics of biodiversity by Professor Sir Partha Dasgupta.

Our ambition for bringing about the systemic change required will not happen overnight, and our strategy for greening the UK's financial system will evolve.

We will continue to explore actions Government can take to green the UK's financial system and will publish an interim report by the end of 2020. The report will examine progress on the implementation of the TCFD recommendations.

Building on the UK's international experience, including the Bank of England's involvement in the Central Banks' and Supervisors' Network for Greening the Financial System (NGFS), we will also use our influence to strive towards the greening of the global financial system. This will include:

- Playing an active role as a founding member of the Coalition of Finance Ministers for Climate Action;
- Co-leading, alongside Egypt, an adaptation and resilience strand at the UN Climate Action Summit;
- Partnering with the private sector to drive the phase-out of unabated coal power and develop sustainable supply chains;
- Exploring initiatives to accelerate the alignment of financial flows to the Paris Agreement's objectives; and
- Aligning the UK's Official Development Assistance (ODA) with the Paris Agreement.

As we move forward with this ambitious domestic and international agenda, the Government will call upon the GFI to provide on-going representation, insight and guidance from the financial sector to inform our strategy.

And while the focus of this Green Finance Strategy is on private financial flows, we recognise that the financial risks and opportunities of climate change are relevant for the public sector as well as industry. That is why:

- The Government will consider the financial risk exposure relating to climate change and the low carbon transition as part of the 2020 Managing Fiscal Risks report; and
- CDC and UK Export Finance will make climate-related financial disclosures in their accounts in line with the TCFD recommendations as soon as practicable, following the close of the 2020/21 financial year.

Financing Green

A strategy to green the financial system as a whole needs to be combined with specific actions to mobilise and accelerate flows of private finance into key clean growth and environmental sectors at home and abroad.

The UK has leading, long-term and legal policy frameworks, most notably the UK's Climate Change Act, which was the first of its kind, and plans to place the 25 Year Environment Plan on a statutory footing. These help provide the long-term certainty we know investors need and the foundation on which we are financing our clean growth ambitions.

Since 2010, there has been more than £92 billion invested in clean energy in the UK⁸. We have also made specific interventions to accelerate green financing, for example, through the Green Investment Bank (GIB). Working alongside over 100 private sector and third-party investment partners, GIB committed £3.4 billion of its own capital to 100 projects with a total value of over £12 billion⁹. And the transition to a clean and resilient economy will hugely expand the opportunity for green finance investments - from homes to power generation to our natural environment.



Our strategy for mobilising green investment will build on our excellent track record and has four primary elements:

- Establishing robust, long-term policy frameworks;
- Improving access to finance for green investment;
- Addressing market barriers and building capability; and
- Developing innovative approaches and new ways of working.

The ambitious actions the Government is taking within this include:

- Announcing a package of measures to mobilise green finance for home energy efficiency;
- Using the forthcoming Environment Bill to place the 25 Year Environment Plan on a statutory footing;
- Determining the steps necessary for landlords and businesses to understand and potentially disclose operational energy use;
- Strengthening engagement with local actors to accelerate green finance across the country;
- Working with the GFI to address market barriers to greater and more rapid deployment of green capital into priority sectors; and
- The National Infrastructure Commission examining the resilience of the UK's infrastructure to consider what action Government should take to ensure it is resilient to future changes, such as climate change¹⁰.

The Government is also mobilising green investments internationally:

- Since 2011, our International Climate Finance has mobilised £910 million of private finance and £3.3 billion of public finance in key sectors including forestry and land use, industrial decarbonisation, sustainable infrastructure and energy transitions¹¹.

- We are working with governments such as China, Brazil and Mexico to develop green finance markets, through the UK Partnering for Accelerated Climate Transitions (UK PACT) programme and the Prosperity Fund.

Capturing the commercial opportunity

Green Finance brings together many areas where the UK has expertise, not just in financial services but also in encouraging innovation, analytics and low carbon technology, working with civil society and providing intellectual leadership in an evolving landscape. The Industrial Strategy set out our aim to make the UK the global standard setter for finance that supports clean growth and allow us to maximise the opportunities of the global and domestic shifts to clean growth.

The UK has a strong record in green financial innovation ranging from Yieldcos, green bonds and environmental, social and governance (ESG) Exchange Traded Funds listed on the London Stock Exchange Group to green mortgages and retail investment platforms.

To ensure the UK continues to capture the commercial opportunities arising from the 'greening of finance' and the 'financing of green', our strategy aims to:

- Consolidate the UK's position as a global hub for green finance;
- Position the UK at the forefront of green financial innovation and data and analytics; and
- Build skills and capabilities on green finance.

The actions the Government is taking within this include:

- Launching the GFI to strengthen public and private sector collaboration and cement the UK's position as a global hub for green finance;
- Enhancing climate-related and environmental data and analytics and promoting dialogue with regulators and industry to support innovation;

- Promoting the adoption and mainstreaming of green finance products and services, including through the launch of a Green Home Finance Fund making £5 million of funding available to the private sector to pilot products such as green mortgages; and
- Engaging with professional bodies to drive green finance competencies - notably through the launch of a Green Finance Education Charter - upskilling the UK's diplomatic networks and building capacity on green finance across the public sector.

Conclusion

Green finance brings together many of the UK's strengths. This document builds on these strengths. It sets out a strategic framework for green finance, outlines the breadth and depth of activities already underway and sets out ambitious policy proposals to strengthen our global leadership and deliver on our vision of a global financial system fit to deliver a net zero future.

The Government recognises that delivering the systemic changes required to align private financial flows with clean, resilient and environmentally sustainable growth will require collaborative efforts across the public and private sector, and that leadership on green finance will in turn strengthen the competitiveness of the UK financial sector.

We will also explore actions Government can take to ensure a just transition and linkages with related policy areas, such as impact investing. We will formally review progress against the aims and objectives of this strategy in 2022.





Introduction

The environmental challenge

Our environment is changing. Human activity has increased the amount of greenhouse gases in the atmosphere to levels higher than at any time during the last 800,000 years. These trends are driving global average temperature rise at a current rate of about 0.2°C per decade¹² and accelerating the number of species that are becoming extinct.

The Intergovernmental Panel on Climate Change's (IPCC) Special Report on Global Warming of 1.5°C showed that humans have caused around 1°C of global warming since the pre-industrial era (1850-1900), with much greater warming in some regions, particularly the Arctic¹³. Earth has experienced major climate shifts in the past, but since the 1950s, many of the changes are unprecedented over centuries to millennia¹⁴. If greenhouse gas emissions continue at their current rate, global mean surface temperature could rise by more than 4°C above pre-industrial levels by 2100¹⁵.

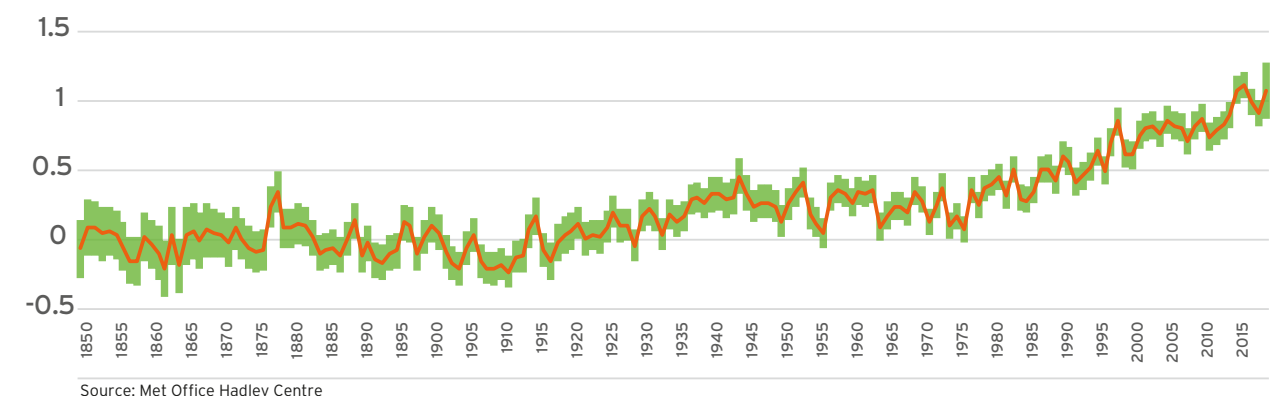
And climate change is just one factor driving biodiversity loss, along with changes in land and sea use, direct exploitation, pollution and invasion of alien species. The recent Intergovernmental Science and Policy Platform on Biodiversity and

Ecosystems Services (IPBES) Global Assessment Report showed how humans have significantly altered nature across the globe¹⁶. Some 75% of land surface is significantly altered, over 85% of wetlands (area) have been lost, and 66% of the ocean area is experiencing increasing cumulative impacts. An average of around 25% of species in assessed groups are threatened, suggesting that around 1 million species already face extinction - many within decades.

People and ecosystems worldwide are already feeling the impacts of these changes, as warming has contributed to more frequent and more intense extreme weather events such as heat waves and heavy rainfall¹⁷. This is already impacting our financial system. For example, direct and insured losses from weather-related disasters have increased significantly in recent decades - 2017 was the costliest year for insurers for weather disasters at \$132 billion¹⁸.

Within the UK, we have increased our understanding of the public health impacts and the costs to society resulting from poor air quality. Our latest set of appraisal tools indicate that the population health impacts of not delivering on our emission reductions could be around £1.7 billion per annum by 2020 and £5.3 billion per annum by 2030.

Global temperature change in degrees celsius since 1850



Source: Met Office Hadley Centre

Why finance is part of the solution

Limiting global warming to 1.5°C may still be feasible. In the next decade urgent, ambitious and concerted action is required across all countries and sectors globally to deliver emissions reductions, as well as directly remove some greenhouse gas from the atmosphere. To do this requires unprecedented change in how we invest, measure risk and assign value to assets. The IPCC estimate that for a 1.5°C trajectory annual average investments in low-carbon energy technologies and energy efficiency need to be upscaled by roughly a factor of six by 2050 compared to 2015, overtaking investment in fossil fuels globally by around 2025¹⁹.

Recognising this need for urgent and coordinated action, 195 countries signed the Paris Climate Accord in 2015 which commits signatories to keeping a global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. Signatories of the Paris Agreement also committed to making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

The IPBES Global Assessment Report shows that the financial sector has a crucial role to play in the transformative change needed to restore and conserve nature, and this in turn helps us tackle climate change by storing carbon in our forests, wetlands and other ecosystems²⁰. These form part of the world's natural capital assets and we need to value and manage them properly²¹. We need to build a sustainable economy that incorporates the

multiple benefits that healthy ecosystems provide to people's lives. Our environment underpins our prosperity and we see the economic benefits that flow from natural capital in increased productivity and well-being.

And here too we are cooperating internationally alongside the 196 Parties to the Convention on Biological Diversity to develop a new global biodiversity framework for the post-2020 period to combat global biodiversity loss. This new framework will address major global challenges to biodiversity, including those identified by IPBES.

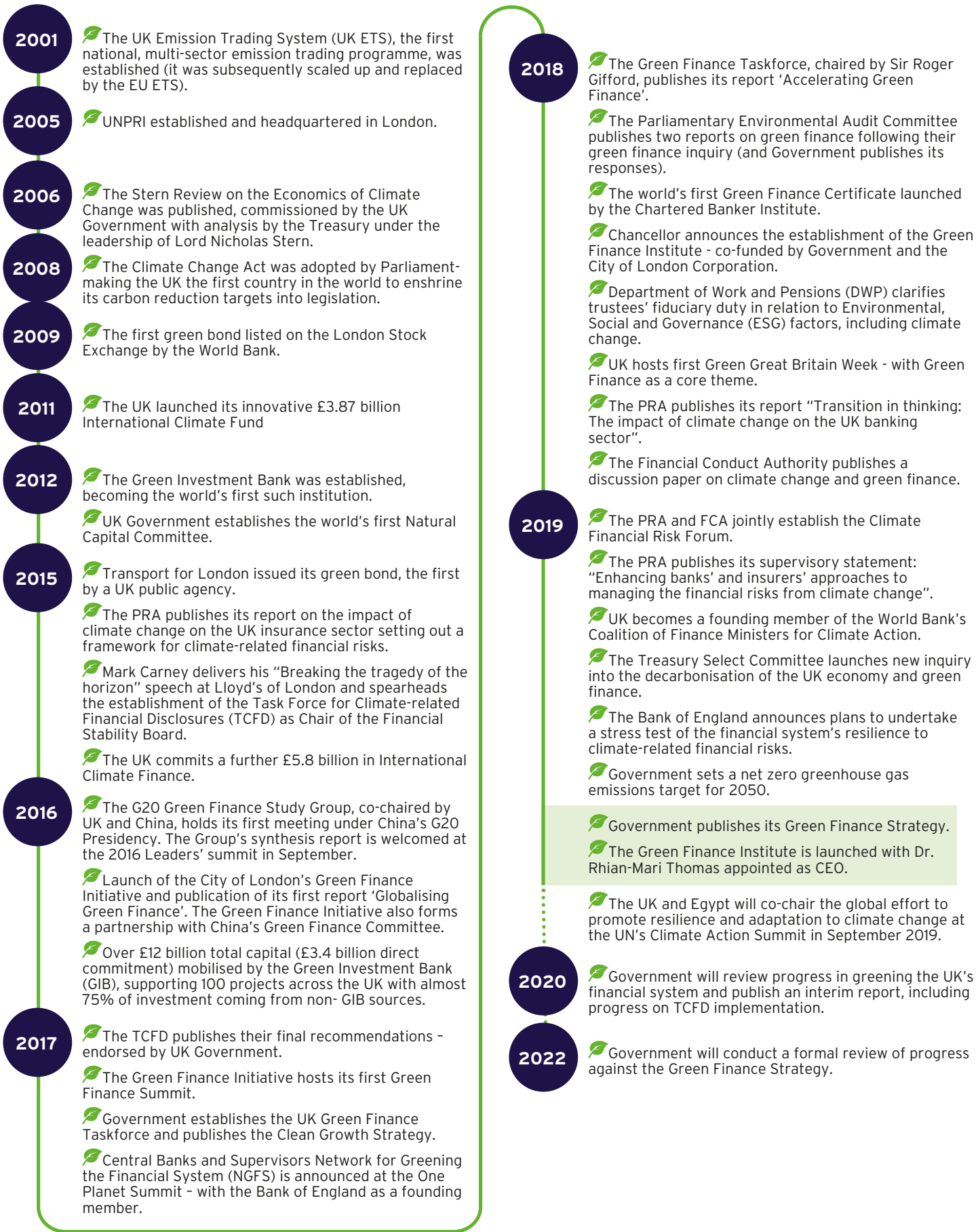
Global recognition of the importance of the financial sector in delivering an orderly transition to cleaner, more resilient economic growth, and delivering global climate and environment objectives has led to the rapid growth of green finance globally. This has been increasingly the case in recent years as the financial risks and opportunities are becoming better understood. The UK has played a key role in driving this growth and shaping the agenda on green finance (see Figure 1).

In recognition of the vital role of the financial sector in delivering global and domestic climate and environmental objectives, green finance is at the heart of the UK's Clean Growth Strategy, 25 Year Environment Plan and Industrial Strategy and supports the UK's economic policy for strong, sustainable and balanced growth.

Through the publication of our Green Finance Strategy we are clear in our ambition to align private sector financial flows with clean, resilient and environmentally sustainable growth and strengthen the competitiveness of the UK financial services sector.



Figure 1 - The UK's leadership on green finance





Chapter 1: Greening Finance

Overview

The transition to cleaner and more resilient growth is reshaping the global economy as countries, industries and institutions seek to mitigate and adapt to the effects of climate change and environmental degradation. This economic transition is having significant and far-reaching implications for the financial sector as the financial risks and opportunities become more apparent. Momentum to green the financial system has grown significantly in recent years. There is now widespread support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and an increasing number of high-profile global initiatives, such as the Sustainable Insurance Forum and the Central Banks' and Supervisors' Network for Greening the Financial System (NGFS), have been established.

However, this transformation must accelerate and proliferate in order to match the scale of the challenge faced, particularly as we move to a net zero economy. Consideration of the financial risks and opportunities from climate and environmental factors needs to move beyond 'corporate social responsibility' to become a financial and strategic imperative and normalised as good business. This chapter sets out how we will:

- Mainstream climate and environmental factors into the UK's financial system; and
- Help drive forward the greening of the global financial system.

In taking forward our strategy, we will work closely with the Financial Conduct Authority (FCA), the Financial Reporting Council (FRC), The Pensions Regulator (TPR) and the Bank of England (including in its capacity as the Prudential Regulation Authority (PRA)). When we refer to 'the UK regulators' in this Strategy we are referring to all four of these bodies.

And while the focus of the Green Finance Strategy

is on private sector flows, we recognise the integration of climate and environmental factors also has relevance to financial decision-making in the public sector.

Mainstreaming climate and environment factors

The UK's position as an international financial centre means the leadership we demonstrate in greening the UK financial system can have a wide-reaching impact, contributing to an orderly global transition towards a cleaner, more resilient and environmentally sustainable economy. Our strategy focuses on four elements:

- Establishing a shared understanding;
- Clarifying roles and responsibilities;
- Fostering transparency and embedding a long term approach; and
- Building robust and consistent green financial market frameworks.

Establishing a shared understanding:

Recent years have witnessed a 'transition in thinking' on climate change as a core financial issue. For example, the PRA's 2018 review of the UK banking sector found that 70% of banks consider climate change as a financial risk, arising from both 'physical' and 'transition' factors (Box 1)²².

However, in its first comprehensive report, published in April 2019, the NGFS, of which the Bank of England is a founding member, highlighted that climate change is not only a source of financial risk but also has distinct characteristics (Box 2)²³.

The Government supports the findings of the NGFS report, and recognises these characteristics make climate change different from other sources of structural change and mean it needs

to be considered and managed differently. The PRA's 2018 review also found only 10% of banks surveyed were managing the financial risks from climate change comprehensively and taking a

long-term strategic view.

Managing these financial risks and delivering an orderly transition to a clean, resilient and

environmentally sustainable economy will require the reallocation of tens of trillions of pounds of capital, presenting significant opportunities for the UK's financial sector.

Establishing a shared understanding of the financial risks and opportunities presented by climate and environmental factors is in our view necessary to set the foundation to deliver our green finance ambitions. The UK regulators recognise this too, which is why:

- **The Financial Conduct Authority, Financial Reporting Council, The Pensions Regulator and Prudential Regulation Authority have today published a joint statement on climate change, which the Government fully supports. The Statement recognises the relevance of climate-related financial factors to their mandates and the importance of a collective response.**

The Government is also taking action. We are working with partners, including the Green Finance Institute (GFI), to host a series of roundtable discussions with Board and Executive level representatives from across the financial sector to reinforce the relevance of the financial risks and opportunities arising from climate change, highlight the importance of urgent action and exchange views and experiences. We call on senior leaders from across the UK financial system to use their signalling and convening power to promote this shared understanding and to catalyse progressive action on climate change within the financial sector.

The Government recognises that environmental degradation and the decline of natural capital, including biodiversity loss, can also be a source of financial risk. As co-chair of the G20's Green Finance Study Group²⁴ in 2017, the UK led work to advance Environmental Risk Analysis²⁵ (ERA) and the need for better data. We welcome research, including from central banks²⁶, to further examine the financial significance of these issues.

The Government is also taking action to deepen collective understanding in this area. For example, through the Government's recent commission to assess the economic value of biodiversity, as discussed further in Box 3.

Box 1 - Climate related financial risk



Physical Risk:

Physical risk resulting from climate change can be event-driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption.

Organisations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organisations' premises, operations, supply chain, transport needs, and employee safety.



Transition Risk:

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations.

Box 2 - Distinct characteristics of climate change that require a different approach



Far-reaching impact in breadth and magnitude:

climate change will affect all actors in the economy, across all sectors and geographies. The risks will likely be correlated with and potentially aggravated by tipping points, in a non-linear fashion. This means the impacts could be much larger, and more widespread and diverse than those of other structural changes.



Irreversibility: the impact of climate change is determined by the concentration of greenhouse gas emissions in the atmosphere and there is currently no mature technology to reverse this process. Above a certain threshold, scientists have shown with a high degree of confidence that climate change will have irreversible consequences on our planet, though uncertainty remains about the exact severity and horizon.



Foreseeable nature: while the exact outcomes, time horizon and future pathway are uncertain, there is a high degree of certainty that some combination of physical and transition risk will materialise in the future.



Dependency on short-term actions:

the magnitude and nature of the future impacts will be determined by the actions taken today, which thus need to follow a credible and forward-looking policy path.

Box 3 - The Economics of Biodiversity

In the 2019 Spring Statement the UK Chancellor launched a global review, led by Professor Sir Partha Dasgupta, to assess the economic value of biodiversity. The review will provide a basis in economic theory for moving the dial on global action on biodiversity, broadening the debate from science to the potential catastrophic impacts for global welfare if current trends continue unabated. The review will aim to facilitate increased international ambition, by identifying actions that will simultaneously enhance biodiversity and deliver economic prosperity.

Clarifying roles and responsibilities

The greening of finance covers a complex set of issues involving multiple actors across financial services and beyond. A clear understanding of the roles and responsibilities of the private sector, UK regulators and Government will be important as responses continue to evolve.

Further to their joint statement, the Government welcomes the actions UK regulators are taking to embed climate considerations into their supervisory practices and approach (see table overleaf). This includes the integration of environmental, social and governance considerations into codes and guidance, and setting expectations for firms to take a strategic, Board-level and long-term approach.