

**Baroness Penn**  
**Parliamentary Secretary**  
**HM Treasury**

**22 May 2023**

Dear Baroness Penn,

We are writing to you as the chairs of TheCityUK's Green and Sustainable Finance Group and the IRSG ESG Committee (the IRSG is a joint venture between TheCityUK and the City of London Corporation). It was a pleasure to meet you in March and set out the priorities of the two groups. As you know, we represent firms across the financial and related professional services industry, bringing together expertise on all aspects of sustainable finance, including the net-zero transition.

We want to extend our congratulations to you and to your colleagues in government on the publication of the Update to the Green Finance Strategy. The strategy marks a significant step forward in the UK's move towards a greener future and, with the right delivery, will put the UK in a strong position to attract private finance and implement its net-zero commitments.

### **Green Finance Regulation**

We look forward to responding to the announced consultations on the Green Taxonomy, Transition Plan Taskforce, and voluntary carbon markets. On the Taxonomy, we were pleased to see that ensuring both usability and interoperability with other taxonomies remains a priority – without these, adoption risks being much reduced. As a member of GTAG, the IRSG looks forward to continuing to provide advice to the government on these issues ahead of the consultation in autumn 2023.

We also look forward to responding to the consultation on bringing ESG ratings providers into the regulatory perimeter. As you know, the IRSG together with the International Capital Markets Association (ICMA) has been mandated by the FCA to establish the independent ESG Ratings and Data Working Group (DRWG) to develop a voluntary Code of Conduct. We believe that this Code of Conduct has a vital role to play in raising standards before regulation comes into place and in helping to frame that regulation. Good progress is being made on that work and the DRWG is intending to consult market participants in the coming weeks.

Moreover, it is positive that the government will investigate integrating finalised ISSB and TNFD standards into the regulatory framework and is committed to generating an investable policy framework for the nature market. The extension of corporate

sustainability disclosures beyond climate and into nature can only help investors make better-informed decisions. Significant work is needed, however, to build up capacity in this area before industry frameworks such as TNFD can be codified in regulation.

### **Delivery of the Green Finance Strategy**

We would like to see the government go even further in driving action across the whole economy. While the strategy strikes the right level of ambition, it does so without providing the necessary detail for delivery including sequencing, prioritisation, timelines, and milestones. Inaction poses significant risks and failing to set precise plans to deliver the Green Finance Strategy will also hinder the delivery of the UK's overall commitments on net zero.

Although the government has decided not to establish an Office for Net Zero Delivery, it will still be important that the overall priorities for net zero are properly managed across departments. This will require co-ordination both within government and with the private sector to create a well-developed set of priorities, with a logical sequencing of specific initiatives and proper monitoring of delivery. Government must be willing to intervene to tackle bottlenecks or it will undermine the credibility of its plans, creating further uncertainty for business and deterring or delaying private investment in areas crucial to the net-zero transition.

### **Financing the transition**

As highlighted in the latest [IPCC report](#) on climate change, the world is running out of time to avert the worst effects of temperature rises. While private finance will help deliver a substantial part of the transition, bold and ambitious action is required from the government to provide policy and financial clarity. Attracting domestic and international investment into green projects and the transition away from high-emitting industries requires a competitive and dynamic approach. The USA's Inflation Reduction Act and the EU's Green Deal both provide incentives for private finance to invest in green projects. The government now needs to issue a comprehensive response to this international competition, as promised in the Spring Budget. This must put in place policies to de-risk investment in nascent technologies and industries, to ensure that the UK remains a competitive market to attract global sustainable investment. We encourage the government to build on the investment roadmaps in the strategy to create specific, quantified, and actionable implementation plans for key sectors, paired with incentives and regulation to support investment to deliver on these plans.

The UK is well positioned to capitalise on its specialisation in key technologies which will be crucial to the net-zero transition and which have high-growth potential (including carbon capture, carbon use and storage (CCUS), green hydrogen, wind power, and sustainable aviation fuel). Private finance stands ready to invest if the government can provide the right parameters and incentives to do so. Once technologies are proven,

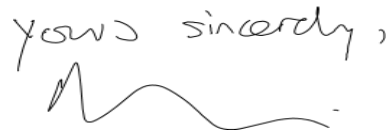
the government will need to demonstrate that it has the commitment to roll-out initiatives at pace, co-ordinating both regulation and operational delivery such as manufacturing and installation. This will send the right signals to the financial markets to attract investment, particularly if supported by blended finance from the government itself.

Both of our groups will continue to engage with your officials in HM Treasury and with those in other departments key to the delivery of the strategy, including the Department for Energy Security and Net Zero, the Department for Business and Trade, and the Department for Environment, Food & Rural Affairs. We look forward to continuing to work together.

Kind regards,



**Anne Marie Verstraeten**  
Chair of TheCityUK Green and Sustainable  
Finance Group



**Michael Collins**  
Chair of the IRSG ESG Committee