

Environmental Audit Committee

Oral evidence: The financial sector and the UK's net zero transition, HC 308

Wednesday 8 March 2023

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[Watch the meeting](#)

Members present: Philip Dunne (Chair); Duncan Baker; Barry Gardiner; Ian Levy; Caroline Lucas; Cherilyn Mackrory; Jerome Mayhew; Dr Matthew Offord; Cat Smith.

Questions 107 - 169

Witnesses

I: Tim Lord, UK Head of Climate Change, HSBC UK; Michael Marks, Head of Investment Stewardship and Responsible Investment Integration, Legal and General Investment Management; Roslyn Stein, Group Head of Climate and Biodiversity, AXA; and Steve Waygood, Chief Responsible Investment Officer, Aviva Investors.

Written evidence from witnesses:

[Legal & General Group Plc](#)

[Aviva Plc](#)

Examination of witnesses

Witnesses: Tim Lord, Michael Marks, Roslyn Stein and Steve Waygood.

Q107 **Chair:** Good afternoon and welcome to the Environmental Audit Committee where today we have our second panel of witnesses for our investigation into the financial sector and the UK's net zero transition. I will start by welcoming our panellists. On my right is Steve Waygood, from Aviva, who is an experienced witness before this Committee. Thank you for coming back, Steve. Could you tell us what your role is there?

Steve Waygood: Thank you very much, Chairman. I am the Chief Responsible Investment Officer at Aviva Investors. I am speaking on behalf of Aviva and Aviva Investors, where I have worked for 17 years.

Chair: Thank you. Next we have Roslyn Stein from AXA.

Roslyn Stein: Thank you very much, Chair. I am from AXA Group, based in Paris where I am Head of Climate and Biodiversity. I am representing AXA Group on both sides of our balance sheet, as AXA is an insurer and an investor.

Chair: Thank you. Tim Lord has just joined HSBC and before that had a senior role within the Government. It would be quite helpful if you could explain what that was, Tim, and what you have gone to HSBC to do.

Tim Lord: Thank you. I am the Head of Climate Change for HSBC UK. Prior to that, I spent my career partly in the financial services sector and for around 20 years in central government in Whitehall as a civil servant working on energy and climate issues.

Chair: Were you one of the people responsible for the net zero strategy?

Tim Lord: I was responsible for the clean growth strategy, which was the predecessor to the net zero strategy published in 2017, and I led the team that set the net zero target in 2019, but left government at the end of 2020 before the net zero strategy was published.

Chair: Thank you. Last, we have Michael Marks from Legal and General.

Michael Marks: Hello. I am Head of Investment Stewardship and Responsible Investment Integration at LGIM, which is the investment management arm of Legal and General. I have been at LGIM for seven years and prior to that 28 years at BlackRock and its predecessor firms. My team and I engage with corporates, governments, policymakers and regulators on driving change across issues such as climate change.

Q108 **Chair:** Thank you. You are each responsible in various ways for some of the largest investment flows and investment management in the City of London, which is one of the largest centres for financial activities around the world. It would be very helpful during the course of our session if you try to give us a sense of the influence that the City of London has on



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corporate Britain and, more widely, on the international approaches towards net zero and stimulating behaviour in the companies in which you invest to encourage decarbonisation of the global economy.

We will start by reflecting on the fact that last Friday, I think, Carbon Brief published an analysis that said that the UK managed to cut greenhouse gas emissions by 3.4% in 2022 while the economy grew by 4.1% as part of the post-pandemic bounce, which I think was faster than any other G7 last year. To what do you attribute that, and to what extent did financial flows and investment in, for example, renewable energy projects help to bring that about? Steve, do you want to give us an overview?

Steve Waygood: I point to the fact that we are in a state of transition. That is largely driven by policy as well as significant innovation and R&D. I would caution with some of the numbers, not from the report that you referred to but the broader conversation about the Paris objectives, maybe with the NDCs. Perhaps we might be on line for 1.8° but the reality at the moment, when you look at the implied temperature change at the London market, is that it is closer to about 3.4° if you were to assume that proven and probable reserves of the fossil fuel sector are all used. I think it is appropriate to recognise huge progress while also recognising the much, much bigger path ahead of us.

Q109 **Chair:** Tim, I am conscious that you have not been there for very long so it may be a bit unfair to ask you a similar question, but HSBC operates globally—I am sure you all operate globally. Do you look at the activities of the bank through this lens when allocating lending assets, for example, around the world?

Tim Lord: Yes, absolutely. We look both globally and within the specific geographic entities we work in. We work in over 60 countries around the world. In the UK clearly we have had significant success in reducing emissions, more than halving since 1990 and all the statistics that the Committee will be very familiar with. That success in particular has, of course, been focused on the power sector. We have a very investable power sector at the moment in the UK, and the deployment of offshore wind and other renewables has been a huge success story.

The key thing for us is that this is a very investment-heavy transition, not just in UK but globally. Secondly, it is an economy-wide transition, At the moment particularly in the UK we have had success in power, as I mentioned. The challenge is to learn the lessons that we have had in power in derisking some of these investments with long-term policy clarity, the right incentives to invest, and replicating that in the other key sectors of the economy where we need to see action. When we look globally, we see that happening in other markets. I think that the UK, to maintain a leadership position, will need to move forward on all those things in the months and years ahead.

Q110 **Chair:** Roslyn, AXA is headquartered in France. Do you have a global role



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in your group as in the title? To what extent is the UK providing leadership within the AXA Group? Is there anything we can learn from the influence that you are having on your parent?

Roslyn Stein: We are Paris-headquartered but none the less have activities across multiple different markets, including in the UK. The perspective that we can bring to this panel is that we view the UK as an attractive investment destination and AXA has made some significant investments. For example, in Hornsea 2 we have a 25% stake in the offshore wind project. It is definitely part of our broader green investment strategy to look at opportunities in this market, and we will continue to do so in the future.

The perspective we can bring perhaps by not being domiciled in the UK is the importance of recognition from policymakers that the challenges of transition are global and they often cross borders. Measures that encourage transition across borders and also provide consistency for those of that need to operationalise obligations are also very important.

Q111 **Chair:** Michael, from an L&G point of view, how significant is the sustainability part of your investment analysis? Does it have to be taken into account when you are making investments or is it incidental?

Michael Marks: We view the climate crisis as exactly that, a crisis. Therefore, it is integral to all of our investment decisions and integral to the way we think about our engagement with all of the companies that we invest in. There is urgency, as one of my co-panellists said, in terms of the scale of the work that is still yet to be done and we keep pushing on that. We have for many years—in fact since pre-Paris—been focused on climate change, but the need to accelerate that activity and to think about the pace of change in transition and the just transition, which go hand in hand, is critical in the way we engage with the companies and others that we invest in.

Q112 **Chair:** We wrote to about 100 financial institutions as part of this inquiry and you are all here because you provided very helpful written evidence on what we are trying to do, but a number of companies chose not to respond. Is this part of a financial competition in that some companies are seeing it as advantageous to them to act in a sustainable way and be seen to be acting in a sustainable way, and some think that it might be to their advantage not to do so? Do you sense that? You are all investors in many of these companies. Steve, I think you have a particular view about this.

Steve Waygood: I was very pleased to see the Competition and Markets Authority being extremely clear in the last few days that collaborating as investors, as we all do, is entirely legitimate and to be welcomed and not anti-competitive. I think that worry, hopefully in the UK at least, will be addressed, but clearly there are still worries globally. The problem that we are experiencing now is a free-rider market failure. There are costs to responding simply to your questions and collaborating and also then



doing the engagement. I think it is likely that those that have not responded are not investing in what they should be doing in investing in the transition. I would personally very much welcome knowing which companies have not responded and if they happen to be listed and in our portfolios too, we will engage with them to encourage them to engage further in the debate.

Q113 Chair: That is a very interesting suggestion. In our inquiry into green finance and pension trustees and fund managers around the time that I joined the Committee five years ago—Caroline will remember this—we urged pension trustees to disclose their green finance credentials, and we named and shamed and put out a league table of those who did and those who didn't. I think that you have just made quite an interesting suggestion for this inquiry.

I will move us on a bit. Tim, given what you said about your previous role, you may or may not have been involved in the development of the green finance strategy when you were in government. We are told that the Government are about to publish a refresh of that strategy. What would you like to see in it?

Tim Lord: I led the team that delivered the 2019 green finance strategy. I very much welcome the fact that Government are looking at a green finance refresh. The world has changed in many regards in the last three or four years and I think we need to do more for the UK and London to retain leadership in this space.

I will identify four areas that we welcome them focusing on. The first is about partnership. This is a whole-economy transition. It is one where the financial services sector and HSBC and other banks have an absolutely central role to play, but we need a partnership with Government and with our investees in the real economy to identify funding gaps and, crucially, to create the right set of investment incentives to enable those gaps to be filled. We see this as a huge opportunity not just for our business but for the UK, and indeed for the global economy, but in many cases, as I mentioned earlier, the investment incentives are not quite right. That is the first point.

The second point is around clarity: clear pathways, not just for the whole economy—we obviously have those through the Climate Change Act—but in particular the urgency of action in the next decade and through to 2030 and beyond means we need more clarity around the key technologies and priorities for the Government to unlock private sector investment.

The third point, which is linked to that, is around alignment. I used the example of offshore wind earlier where we have strong alignment of long-term clarity in policy, cross-party support, funding, regulation, incentives and so on. We have seen deployment go up, the cost of capital go down and, crucially, the cost of the technology go down from roughly £200 per MWh a decade ago to more like £50 per MWh now. How do we replicate



that success in some of the more challenging sectors of the economy, hydrogen, CCS, building retrofit and so on? I think that is entirely achievable.

The last point is around derisking where I think it is important to note that at the moment the risk of some of the low-carbon technologies we are looking at from a finance perspective is slightly higher than some of their longer standing counterparts, simply because of the novelty of those technologies in a UK context. I think we can derisk them through things like blended finance and so on, but a relatively small amount of Government support and clarity can go quite a long way in getting the investment moving in some of the technologies that I have mentioned.

Chair: Thank you. Does anybody else want to add to that?

Michael Marks: When we think about what we would like to see from the refresh of the green finance, we look for the taxonomy to come through, we look for a science-based and independent approach to thinking about the taxonomy with mandated reporting against that. Equally, we think about our involvement in the Transition Plan Taskforce, where the UK is leading on setting out what a good transition plan should include. I think that the potential to make that mandatory would be extremely beneficial. One of the very strong statements made by the Transition Plan Taskforce is the inclusion of nature in the transition, not just decarbonisation, and we are wholly supportive of that.

Chair: We will come on to some of those points a bit later on.

Steve Waygood: I endorse the previous comments on exactly this point. The Chris Skidmore review, which is a superb piece of work—we were extremely pleased to see it—has the idea at its core that there should be a whole of economy transition plan. I would be very keen to see that endorsed in that piece of work. There is a role for the OBR as well as the PAC and the Climate Change Committee in overseeing such a plan. As well as there being transition plans, as Michael has referred to, at the corporate level and the investor level, we would be very keen to see it at the nation level and at the departmental level too. I was very pleased to see Chris Skidmore think about the role of Select Committees in overseeing departmental transition plans too. It is not much then to think through how that might relate to nationally determined contributions as part of the UN Framework Convention on Climate Change and then how you could start to mobilise a global transition.

There is another thing that I would like to see considered. The UK as a proud member of the G7, the G20, a shareholder in and a member of all the institutions of the international financial architecture—the Financial Stability Board, IOSCO, the Organisation of Pension Supervisors, the Association of Insurance Supervisors and so on—has a role there too internationally in ensuring that there is a level playing field and making sure that other financial institutions, other centres of equity, other capital flows, are aligned with the transition too. In that regard, I think we need



an audit or a review of the international financial architecture that feeds into the stocktake in COP28 in UAE, which of course will be doing a stocktake of the whole Paris agreement.

Paragraph 55 of the CMA outcome from last year's COP was quite clear that there is a big missed opportunity here. We need to harness the entire international financial architecture. I was so pleased to hear comments made by Sir Alok Sharma yesterday at the Peers for the Planet event where he was talking about the need for a Bretton Woods 2 moment on its 80th anniversary next year. We could not agree more strongly. It would be wonderful if all those things appeared.

Q114 **Chair:** You have touched on a lot of material there, which we will be picking up. On the role of the UK in leading the financial community internationally to come to a consensus on this, are we at risk, if we wear too much of a hairshirt of trying to be the primus inter pares, of allowing a distortion of our markets and we see other markets take advantage of that? Do you have any comment on that, Roslyn?

Roslyn Stein: Similar to my peers represented here, we operate on an international platform, and having systems and rules in place that are consistent as much as possible and operable will reduce the compliance burden and ensure a level playing field for investors. I think it is important to look at what other markets are doing currently and thinking about putting in place. Obviously the UK Government will decide what is appropriate for this market but it is none the less important to be sensitive to what is being done in other markets.

Q115 **Chair:** Is it attractive for investors to be investing through a market that will be the first net-zero aligned financial sector? Is that something that your clients are interested in and are driving change, or are you the entities that are trying to force change upon them? How does it work?

Michael Marks: We see huge opportunity. We see some hurdles to achieving that opportunity. We also see some of those hurdles being potentially removed. For example, Solvency UK would enable investors such as ourselves to significantly increase over the £30 billion that we have already invested in to scale up start-ups in the transition and other socially useful activities.

Q116 **Barry Gardiner:** You are all members of GFANZ, the Glasgow Financial Alliance for Net Zero, for the net zero asset managers. Can you tell me specifically what your company has done since becoming a member that it would not have done had it not become a member? You may say, "We are such a wonderful company that we would have done it in any event," but that might just be gilding the lily a little.

Roslyn Stein: I am happy to go first. AXA joined the Net-Zero Asset Owner Alliance at the end of 2019 and in December 2020 we announced our first intermediate target to reduce the carbon footprint of our investment portfolio. That is an intermediate target that will take us to 2025. Joining the NZAOA permitted our people to workshop



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methodologies and debate with peers and experts brought in to determine what is the right methodology to adopt.

We are also encouraged under the target setting protocol to report our progress. We report annually on our progress and at the end of 2021 we had reduced the carbon footprint of the assets in scope by I think it was around 25%, but I can double check that for you, and our results for the year 2022 will be published shortly. That is a very concrete example of where joining a net zero alliance has enabled us to upskill our people, bring expertise inside the company, set concrete intermediate targets, work towards them and report annually.

Separately as a member and chair of the Net-Zero Insurance Alliance, in January, with our peers, we published the first-ever protocol for the methodology to carbon footprint an insurance portfolio. That is being done entirely voluntarily with members of that insurance alliance, along with support from the United Nations Principles for Sustainable Insurance. By July this year, you will see members of that alliance publishing their first targets.

We have seen very concrete actions come out of our participation in those two alliances. We are also a member of the Net Zero Asset Managers Initiative.

Barry Gardiner: Thank you. That is very comprehensive. Who would like to go next?

Tim Lord: As you know, GFANZ is an umbrella organisation and we are members of the Net-Zero Banking Alliance and the Net Zero Asset Managers Initiative. It is obviously very difficult to assess a counterfactual where if none of those things had happened, what would we have done in that counterfactual. Our action is driven partly by the fact that we see this as a really big growth opportunity, and secondly by the fact that we see failing to address climate risk as a significant risk issue. Since joining GFANZ, we have set a net zero 2050 target and we have also set 2030 decarbonisation targets for all the major emitting sectors that we work in. I think that is principally driven by the fact we want to align with the science, we see this as a big opportunity and a big risk agenda.

Having said that, I agree with the comments that were just made. In particular, I think GFANZ has given members of that organisation the confidence that others are moving as well, and therefore creating, in so far as we need it, a burning platform for companies across the sector to move forward.

The second thing that GFANZ is doing—this is obviously a work in progress but I think it is extremely important—is the comparability and transparency point. We have recently published our ESG annual report and others have done similarly. I think that the level of transparency that you are seeing, and hopefully the level of comparability across multiple



geographies that we are working towards, are potentially hugely important. There is real value but also each institution needs to take responsibility for itself, not just the minimum compliance with what bodies might expect but also going further than that.

Michael Marks: Similar to my peers here, joining the Net Zero Asset Managers Initiative or the Net-Zero Asset Owner Alliance as a founding member, as we have on both occasions, is the clear different action we are taking in setting up public targets, interim and the long-term targets, which go beyond all the actions that have been undertaken for many years. The importance and the emphasis of that have allowed us to engage with our clients in a different way and along with other participants in the industry, such as the investment consultants, to help shape how pension funds will invest and are they are asking for their portfolios to be net zero aligned. It has changed that dialogue, so it is not just our actions that are different but also how it changes the funding, which is the key, that is driving that capital into the real economy.

Steve Waygood: I agree with everything that Roslyn, Tim and Michael have said. We are also a member of all the underlying institutions that are relevant to us. Therefore, one answer is that there have been a lot more meetings and a lot more discussion about policy and practice, and there has been collaboration.

I think that the single biggest thing that we have done differently is use the opportunity that GFANZ sets out to collaborate at a policy level at places like Sharm el-Sheik, where Mark Carney, Michael Bloomberg and Mary Shapiro have themselves acted as leaders in the policy conversation. There is, therefore, a conduit for us to participate in some pretty important conversations that are shaping global finance and need to shape it much more. I think that is the biggest thing that GFANZ has presented us with— an opportunity to engage in that way.

Q117 **Barry Gardiner:** I have given you all an opportunity to mark your own homework but one of the things I want to challenge you about with the Glasgow Financial Alliance for Net Zero is that Mark Carney was very clear to us when he appeared as a witness that there is no accountability here. GFANZ does not hold you to account for doing the things—the consistent science-aligned methodologies. You are not accountable on all of the things that GFANZ purports to stand for. What accountability mechanisms have you set up within your own organisations that mean that you are being held within those organisations to achieving the things that you have committed yourselves to through GFANZ?

Michael Marks: Mr Gardiner, I am happy to share with you. I think first it is transparency and, as colleagues have said, being clear and publishing our progress against what we are doing and being clear about that. Internally in our own organisation we equally have governance structures where our targets are assessed and our progress against those targets is measured and assessed.



Q118 Barry Gardiner: Are the alliance commitments that you have made assessed and is there a process of sanction if you fail to meet those commitments? Do you review how you are marking yourselves against those commitments?

Michael Marks: We do review how we are marking ourselves against the commitments. We have non-executive directors on our committees who look at this, challenging what are we doing, are we doing enough, what more can we do?

Roslyn Stein: I might add, given the examples I have provided being quite concrete ones, that when any publicly listed company sets itself some targets, it will then ensure transparently that it reports on them regularly. Having the correct governance in place internally is very important to review and approve those objectives and then to review and approve progress. One of the additional things that we have done is link it to remuneration—linking the progress that we have made for the investment carbon footprint to executive remuneration, for instance.

Tim Lord: I will add a couple of things to that. First, we have set ambitious targets, which I mentioned earlier, covering all the key emitting sectors that we work in—oil and gas, power and utilities, heavy industry, transportation and so on. We publish those, and as of two weeks ago we published our progress against those. I think that the transparency element of that is really important. It probably goes without saying that for a major global bank and, I am sure, for all the institutions represented here today, those things go through a very heavy internal process before they are set and published. We will be publishing our progress against all of those annually.

The other point, as you say, is internal governance, remuneration, all those kinds of things, which are partly to do with GFANZ and partly that we report on under the Task Force on Climate-related Financial Disclosures. That is very important as well, because that transparency is what drives the accountability both externally and internally.

The last point I will make is the Transition Plan Taskforce was mentioned earlier. I think having real clarity and comparability around the responsibilities that financial services institutions, but also other companies in the real economy, have to report on their progress in a way that is structured and covers the same ground, adapted to different sectors and different companies is really important. Investors and others can scrutinise not just the targets that we are setting but how we are performing against them.

Steve Waygood: I very much enjoyed watching Mark Carney give evidence. I think the point he was making was that while GFANZ is an umbrella organisation, the underlying entities do have accountability mechanisms. As you have heard, that is all about disclosure. Some of us go beyond that and include it in remuneration. Some of us also put reports to the vote at an AGM and I believe if the transition plan is to be



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mandated, those that are listed should also put it to the vote, because it provides exactly the right conversation between investors, who are long-term, and the company that needs the support of long-term investors at the AGM, which of course should be the parliament of the business. That is an accountability mechanism I would hope to see invoked in due course.

Q119 Barry Gardiner: But if a company joins GFANZ and does not match up to the commitments—you have shown the ways in which you are trying to ensure that you do—there is no mechanism for forcing them out, is there? They could just come under the umbrella so they market themselves as doing this. What do you do with that sort of rogue company?

Steve Waygood: I cannot speak for Mark Carney or for Mary Shapiro, but I would say that it is quite common for those circumstances to play out in other areas, and where that happens it is the role of the chair to have a word with the principal and for a conversation that then encourages the two institutions to part company to then ensue.

We all need GFANZ to retain a brand that has integrity and for it to be seen as an organisation that is worth working with. I fully expect the people we have alluded to to be exactly concerned about that kind of practice too.

Q120 Barry Gardiner: Thank you. Do you think there is a role for Government, either through guidance or through regulation, to fill what we might call that accountability gap to ensure that those members are actually matching up to the aspirations?

Steve Waygood: Yes.

Q121 Barry Gardiner: If you do, it would be good for us to have it in a form that we could make as a recommendation within our report.

Steve Waygood: Yes. I think it would be entirely right for the transition plan to be put to the vote at company AGMs. That is one concrete recommendation that I have already made. I also think the Climate Change Committee could monitor transition plans, not just for GFANZ members but en masse. I think every transition plan, given that this is a collaboration between stakeholders and Government—all stakeholders work with all companies; we all have a shared interest in mobilising a transition, don't we—needs to be policy driven and policy led.

This is a colossal market failure. I think we need to invite companies to systematically make recommendations at the sector level about what needs to happen to correct the market failure in their sector in their value chain. That applies to investors too. Perhaps, ideally, we should invoke those kinds of recommendations annually in our transition plan. We have done that. It is a major section in our transition plan that we published at the beginning of last year.



Perhaps those ideas need to be mined by the Climate Change Committee and then provided to the relevant Department annually, so that we then mobilise the transition over the coming decades to an economy that is more aligned with net zero before 2050. I don't think there is one silver bullet. It is a systematic governance approach, where country governance meets corporate governance.

Q122 Barry Gardiner: I think that is very helpful and could well end up being part of our recommendations. Does anybody wish to add to that? No.

In that case, I have one further question, given that we have been talking about governance. You will know that Vanguard withdrew from GFANZ after it had received pressure in the United States from Republican attorneys general, who had asked the Federal Energy Regulatory Commission not to renew its ability to buy shares in US utilities, partly because of its membership of the Net Zero Asset Managers initiative. Do you think that is helpful?

We just talked about how Governments should be holding companies to be more accountable, but clearly that sort of political involvement can sometimes be damaging. What would your comments on that be? Of course Vanguard said that it was leaving—if I get the quote correctly—“so that we can provide the clarity our investors’ desire about the role of index funds and about how we think about material risks, including climate-related risks—and to make clear that Vanguard speaks independently on matters of importance to our investors”. Of course, that seems to imply that anybody who remains a member of GFANZ does not speak with clarity or take that importance seriously.

Michael Marks: Mr Gardiner, representing LGIM, we are a very large index manager and we remain wholly committed to driving forward on the transition. All of our engagements, as I said earlier, we have been undertaking for many, many years, including our climate impact pledge, which addresses over 5,000 companies globally, including in the US, on their targets, their expectations at the corporate level. Really, what changes the real economy is: what are these companies doing day to day? What are they doing to change their businesses? We are consistent across all of our businesses globally on that. I do not believe it is necessarily incompatible to drive forward on that and remain true to our fiduciary responsibilities to our clients.

Q123 Barry Gardiner: I am sure that would be the same for all of you, but why has GFANZ dropped its race to net zero requirement for companies? It has folded to that pressure from the US, hasn't it?

Steve Waygood: I don't believe that is true, Mr Gardiner, but I think there has been—

Q124 Barry Gardiner: If it is not true, what alternative explanation can you give me for it dropping that requirement?

Steve Waygood: There has been a very unhelpful politicisation of ESG in the US. I am fortunate that our North American business is significant in



Canada, less so in the United States, so we do not get embroiled as much as others do in these areas. Perhaps we are able to speak a bit freer.

You will be aware that the *FT*'s leader today talks about the very appropriate measure that Biden has taken to strike out the proposals made by the individuals you are referring to using the presidential veto, because it is intellectually incoherent to exclude ESG issues from an investment position, given how often they are material. For example, at the level of governance, it is clearly for the guiding minds to set a strategy and to ensure that their remuneration is aligned with that strategy, so to ignore the 'G' when it is so material and so obviously material is utterly absurd.

The reason why I think the Republican conversation has embroiled Vanguard and others is the extent to which you have seen a move afoot to slow down a transition that is entirely aligned with long-term economic growth but not aligned with certain regions' own growth, and there are just transition issues as a consequence.

I think that this politicisation of ESG is obviously a symptom of that. It underscores just how important it is that we have a just transition that considers all these regions.

Q125 Barry Gardiner: I am grateful to you. You suggested that I had read the *FT*'s editorial. I hadn't, but I should have done obviously. I am doubly grateful to you, because I am pleased with what it has reported. While it is wonderful that President Biden is moving to exercise the veto, it does not change the fundamental concern that I have that GFANZ has responded to that sort of negative political pressure by dropping one of the requirements. I think we would all wish to see it maintain a very strong stance in such circumstances, which on this occasion I do not think it did.

Chair: Is that a question, Barry?

Barry Gardiner: It is a remark to which I would be very keen to hear their response, Chair.

Tim Lord: Three points on that. Obviously, I would not wish to speak for GFANZ and obviously it has a challenge in terms of breadth of membership versus ambition, I suppose, but a couple of thoughts I would give in response. One is that it emphasises the importance of companies taking direct and individual responsibility for their own targets, their own business models and what they are doing themselves. We cannot delegate that to any organisation or acronym as it were. That is a hugely important point.

The other point that I would make is the other very interesting thing that is happening in the US at the moment is a huge influx of capital, precisely to fund this transition as a response to the Inflation Reduction Act. Some of the comments that we made earlier allude to that and the fact that the



UK, like any global economy, is in a race for investment here. The wider policy framework around all of this matters enormously and, perhaps in some cases, more than some of the other debates that we have touched on already today.

Roslyn Stein: I would just add too, you have before you representatives from institutions that are members of the net zero alliances that can speak concretely about why they joined, what they have achieved, and what membership has brought to their organisation. We have one example of one firm that has left but there are also many, many more examples of firms that are members. I share my peers' reflections on the value and the positives that membership of this alliance has brought.

Barry Gardiner: Absolutely, my concern is more of the—

Chair: Barry, I am afraid we are going to have to move on. You had a good crack at it.

Barry Gardiner: Indeed. Thank you, Chair.

Q126 **Caroline Lucas:** My first question is for HSBCm for Tim Lord. In December you announced that you will stop funding your oil and gas projects, becoming the first large multinational bank to do so. Could you say a bit more about the impetus behind that policy and whether you anticipate any challenges with its implementation?

Tim Lord: Yes, sure. As you said, we announced that at the end of last year, I think after we had submitted our evidence to this Committee. In terms of the impetus for that policy, I think there are three key aspects to that. The first is around driving global greenhouse gas emissions, because delivering a net zero bank is one thing, but what we want to do is drive transition in the real economy. We are proud to work across many geographies and many sectors, but this is about how we drive that transition and reduce greenhouse gas emissions.

The second was to give clarity around enabling a resilient and an orderly transition, so helping to navigate the decarbonisation transition but also around building energy security in the longer term. Thirdly, and very importantly—others have touched on it already—it is around supporting a just and affordable transition and recognising the kind of local realities and the opportunities in all the geographies and the communities that we serve.

That policy was set using a number of inputs, including the International Energy Agency's net zero scenario. It means we will no longer provide new finance or advisory services for the specific purposes of new oil and gas fields. As you say, I think we are the first global bank of our size to make that commitment.

I would add that that is not a standalone policy in the sense that it is integrated with other things that we are doing, in particular the sectoral targets that I have already mentioned, where we have requirements



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around oil and gas and reducing our financed emissions in that space, as well as the requirement that we are putting onto our key clients to produce transition plans, which we will then work with them to improve.

Q127 Caroline Lucas: I want to follow up on that bit because, as I understand it, the announcement that you have made applies to asset financing only, and not to large proportions of finance that you still provide to companies that have oil and gas expansion plans; is that right?

Tim Lord: That is precisely why we have the transition plan process in place, so that we can look at the plans for the clients that we have, so we can make sure they have appropriate levels of ambition—

Q128 Caroline Lucas: Why could you not go further? I suppose that is my question I am very glad you have gone as far as you have in leading others, but why could you not have gone further than the asset financing then?

Tim Lord: That is a very fair question. What we have said is that we are going to keep all of those policies, all of our fossil policies and indeed more broadly, under review annually to look at how we can potentially extend those in the future as appropriate.

I want to pick up on the second part of your question, which was on the challenges around implementation, because that is obviously very significant, particularly in this space where companies—including ours—are making lots of commitments. We need to make sure that we are following through on those. Prior to the launch of that policy, we engaged with our clients and our internal colleagues. We provided a number of briefings and so on to make sure that the intent and the implications of that policy were very well understood.

Since we published it, we have delivered training to over 1,000 colleagues across the business, and we operate a dedicated internal help desk for queries regarding that policy. We also have new governance processes and internal procedures in place to make sure that our transactions are compliant. Again, we will be keeping that under review because we are very conscious of the need not to just talk the talk, in terms of setting policies like that but making sure we are walking the walk in terms of implementation.

Q129 Caroline Lucas: Is it possible to hazard a guess as to when you might be able to bring more of your financing in line with that investment from oil and gas?

Tim Lord: I would not want to hazard a guess, but what I will say is that we have a 2030 target of reducing financed emissions from the oil and gas sector by 35%. That is aligned with the most ambitious of the International Energy Agency pathways. Again, we published data on that a couple of weeks ago as part of our annual report and accounts. We have charts showing our baseline in 2019, how we are performing against that now and where we need to be over the remaining years of this



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decade to 2030. Hopefully, that will give the kind of clarity and transparency that is needed to hold us accountable against that.

Q130 **Caroline Lucas:** Thank you. According to data from Insure our Future, I think I am right in saying that AXA and Aviva have committed to end, or at least restrict, underwriting for oil and gas production, but LGIM hasn't. If that is correct, can you tell me why and when you might follow in the footsteps of your peers?

Michael Marks: Ms Lucas, from the Legal & General perspective, I would need to come back to you specifically with regard to that. From LGIM's perspective, as an asset manager, we do not underwrite insurance business so I would need to come back to you on that. It is not a part of the business I am involved with.

Q131 **Caroline Lucas:** It would be very interesting to know where LGIM stands in terms of financing oil and gas.

Michael Marks: Absolutely, so we believe it is very important to continue to drive at change in the companies we invest in. I have mentioned a few times "engaging". That is perhaps an esoteric term we use in our industry. Let me I give an analogy: say there was a ship stranded at sea with the captain struggling to retain control; if we pulled our money away that would be like leaving the ship to sink. Instead, what we try to do is bring the tug alongside the ship, guide as to the issues we think need to be addressed, "Here is what you could do and the areas you need to focus on," and help them come safely to port, so—

Caroline Lucas: That assumes they want to come to port, of course.

Michael Marks: Correct.

Q132 **Caroline Lucas:** Therefore, the analogy could break down. So I come back to asking: when will LGIM have some kind of oil and gas finance restriction policy?

Michael Marks: We do in our climate impact pledge. We use the phrase internally: engagement with consequences. We try to work with those companies, as I said before—more than 5,000 companies that we assess against criteria across 20 climate-critical sectors; oil and gas is one of those sectors. We look to engage. We take positive action, which starts with voting and voting against the chair of the company. That normally gets some attention. Ultimately, we can take the decision to divest from those companies, from the portfolios—

Q133 **Caroline Lucas:** Have you ever?

Michael Marks: We have, indeed, across many stocks over the years that we have been running the climate impact pledge. It is also the publicity around the divestment that helps bring those companies back to the table and then see them reinvested in, because they have seen that publicity and then wish to hear, "Okay, what can we do? How do we retain your support?"



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Q134 **Caroline Lucas:** How do others think that the Government could encourage other financial firms to follow the kind of leads that HSBC has set out? Any thoughts from anybody about that? You have described a relationship process that you have with your partners, but is there a role for the Government to try to accelerate? That is a particular example but, for example, the kind of action that HSBC has taken.

Tim Lord: We are very keen to see others within the sector do that, and some of our counterpart banks have made similar pledges but, in particular, we look to the large global institutions. In the same way as when the UK set a net zero target—we were the first G7 economy to do so, I think—others followed, that was very welcome and we would like to see that happening more.

It is hard for Governments to regulate these kinds of things, not least the complexity of all the institutions in play. The key thing for me is I return to that point around transparency and making sure that we have concrete requirements around transition plans, to make sure that even those who perhaps would not want to be all that transparent are being transparent. That is certainly something that we would welcome.

Q135 **Caroline Lucas:** Do you think investor behaviour is affected by mixed policy signals? I am thinking of a Government decision, for example, to award new licences for the North Sea oil and gas exploration.

Tim Lord: Clarity on policy is always helpful. Clarity on where Government see investment requirements and, crucially, that we have the right economic incentives in place to deliver that investment matters enormously.

Q136 **Caroline Lucas:** A beautifully diplomatic answer. Do you think it is helpful for the Government to be giving the green light to more oil and gas exploration in the North Sea, in terms of the work that you are trying to do?

Tim Lord: In terms of the work that we are trying to do, as I say, clarity around the decarbonisation journey is frankly more helpful.

Q137 **Caroline Lucas:** I want to have a quick word with Aviva. I know you have done some work with WWF in terms of setting out what best practice looks like when it comes to aligning the financial system with net zero, and the emphasis it puts on the leadership. In that context, would you agree with me that the Parliamentary Contributory Pension Fund should also be leading the way in this?

Steve Waygood: I would.

Q138 **Caroline Lucas:** Would you go further and comment on the fact that, at the moment, the scheme does not allow members to input into, for example, a recent review of its responsible investment policy? Would you expect that good practice would mean that members of a pension fund can have a say in what that responsible investment policy looks like?



Steve Waygood: I would provide a general comment. Before being specific about your particular pension scheme, I would like to do a little bit of work myself to establish exactly what they do allow. I am sure you know—you are much better placed than I am to know. I think it is, absolutely, increasingly common practice to encourage members to have a say. Certainly, we would expect trustees to be consulting individual beneficiaries on matters of policy and practice, so I hope that addresses your question.

Q139 **Caroline Lucas:** No, I appreciate you cannot answer in detail but I would like to follow up with you if I might after the meeting.

Steve Waygood: Please do.

Q140 **Caroline Lucas:** I am aware of timing, so lastly to AXA. You became the first major fossil fuel insurer to adopt an oil and gas policy, I think in 2021, but according to calculations by Reclaim Finance, the policy covers just 43.5% of currently planned oil and gas expansion. What are the barriers for you going further than that?

Roslyn Stein: Of course, so the first thing I would say is that, like other firms on this panel, these policies are subject to regular review and, notably, in an economy in transition, that is something that is done very regularly.

The approach that AXA chose to take is to try to find the right balance. I am not particularly familiar with those figures from Reclaim or how they were calculated. I believe that they are looking at future potential projects, so it is difficult to speculate in that respect but we have tried to take a balanced approach and identify some clear no-goes.

The other thing I would say is that each large project is subject to consideration and review when it arises in the future. Again, I am not so sure that it is correct to say that we would be able to, or we would want to, or we would insure these hypothetical projects in the future.

Q141 **Caroline Lucas:** Perhaps I will follow up with you again, if that is all right, after the Committee with the particular section from Reclaim Finance, which set that out. If you could give us a reply in writing that would be perfect.

Roslyn Stein: Sure.

Caroline Lucas: Thank you.

Q142 **Jerome Mayhew:** Divestment versus engagement, that seems to be what we have been talking about a lot today. You have had a number of questions focused more towards divestment. I am perhaps looking at it from a different perspective, and I just want to tease out the other side of the argument.

We have the Climate Change Committee, which has suggested that we are going to be reliant on oil and gas at least until 2035 and, in some



form from 2050 and beyond, particularly if we get the development of blue hydrogen and the development of CCUS in a commercially meaningful way. Given that the Climate Change Committee suggests that we have an ongoing need, and given that it is generally accepted—please challenge me if you think I am wrong on this—that even to maintain a declining production in the North Sea and elsewhere you need constant investment in oil and gas to maintain even declining production, what would happen if there was a universal approach of divestment from this sector? I am going to start with you, Mr Marks.

Michael Marks: Mr Mayhew, we absolutely would say, as you said right at the outset, that when it comes to engagement versus divestment, we believe in engaging. Divestment is a last resort for us, and it is for many reasons. The analogy I gave is one of those reasons. We want to see this continue and we believe—the science is there—that we will need hydrocarbons for many years to come. We also need to continue to invest in the green energies and the transition that helps us through that, so we need to make sure that these companies are viable through to that. Equally, we need to make sure that they have plans for how they wind down those assets so those assets don't become stranded and a cost that needs to be picked up by stakeholders beyond the company, potentially the state. Our engagement is not just, "What are you doing?" but "What is your plan? What is your short, medium and long-term plan?" Divestment on its own and saying, "We are pulling back from maintaining these organisations" could lead us to those stranded assets in a much quicker timeframe and, potentially, to an energy-insecure world.

Q143 **Jerome Mayhew:** Mr Lord, if you agree with that statement, how do you defend the position of HSBC?

Tim Lord: In what regard, sorry?

Jerome Mayhew: In terms of its future investment in oil and gas.

Tim Lord: We are continuing to invest to some degree in existing oil and gas infrastructure. I think we agree. As I mentioned earlier, we use the International Energy Agency's net zero pathway as the basis for many of our targets. We are a global bank, and it shows continued global oil and gas requirements out to 2050 and indeed beyond, but significantly reduced from where they are now.

Our strategy is absolutely around engagement, in the sense that the objective here is real economy decarbonisation. The easiest way to decarbonise as any financial institution is to divest, but if those emissions continue happening then obviously no benefit is gained.

Having said that, the words you used earlier I found compelling around engagement with consequences and engagement with a purpose. As I mentioned earlier—I won't go through it again—we have a client transition process, which is about making sure we have assurance that our largest clients in particular have credible targets, have credible



interim targets, have credible plans in place in order to meet those targets, and they have the right internal frameworks and so on to deliver against them.

From our point of view, that is the right way to go because this is a transition. Many of the big emitting companies in place at the moment are going to need to go through that transition but they bring many of the skills, bring many of the jobs and bring pretty much of the economic capability that we will need, not just in the UK but globally.

Q144 Jerome Mayhew: Both of you, what successes have you had? I am going to go back to Mr Marks. We are all for engagement. We are saying that this is engagement with consequences. You have had some experience now of implementing this policy. What successes have you had?

Michael Marks: Mr Mayhew, if I may give you a real example. I mentioned earlier that nature is critical. Deforestation is a critical aspect of reaching net zero. We will not reach net zero without curbing deforestation. Therefore, we engaged on deforestation for many years. We were delighted to sign up to the commitments at COP26 because it was a reiteration of what we already do.

In those engagements, Kroger, a very large US food retailer, had no concept of its impact through deforestation that was happening through its supply chain. We engaged with Kroger for many years, to the point, as I was saying to Ms Lucas, that we did get to the point of publicly saying, "We divest from this company. We will pull away that capital from these portfolios because they are not doing what we need them to do". They were not meeting our minimum expectations. Over the following two years and as we continued to engage with Kroger, it stepped up very substantially putting in place credible policies that it had verified by CDP, and we were delighted to then be able to name and shame them and say, "Welcome back into the club."

Jerome Mayhew: "Name and shame", I have not heard that before. I am going to use that.

Q145 Chair: Had you named and shamed them when you made your decision?

Michael Marks: We had indeed.

Tim Lord: In some respects it is early days in terms of success. Part of the success I think is in terms of making sure that these companies are producing credible transition plans and are feeling the pressure to do that—not just from us of course; many of them will work with some of the institutions at the table today and many others beside. I think that in itself is a success.

We have had success in terms of investments in offshore wind in the UK, for example, and companies increasingly pivoting their activities. We are invested in Hornsea and in Dogger Bank and various others. I think you



are also seeing much stronger action in terms of just transition partnerships in Asia. We are engaged in one in Vietnam.

Q146 Jerome Mayhew: That is a list of good-sounding investments, but I am interested in evidence where your engagement with consequences—I think that was your phrase—has changed behaviour, rather like Mr Marks' example where there was bad behaviour, to use the terminology of the schoolroom, and your investment behaviour has caused a change in behaviour of a company. Do you have examples of that?

Tim Lord: I think it is quite challenging to attribute directly individual actions to individual relationships with financial institutions. In some ways, the more compelling narrative that we need is around not just HSBC—obviously others at this table and elsewhere are doing this as well—having clarity around those transition plans and then, once they are in place. Whether you attribute that directly to any individual bank or financial institution is another question.

Jerome Mayhew: Ms Stein, do you want to try to end this part of the conversation?

Roslyn Stein: With pleasure. I think Steve Waygood mentioned at the very start the recognition that we are in transition. The approach that AXA has taken historically has been to try to find the right balance between the tools you use as a responsible investor, between engagement, between the ways you construct your portfolios and what you choose to be in the portfolio in a proactive way and also engage in divestment. It is important to recall it ought not be a very binary debate because both divestment and shareholder engagement ought to play a role and do play a role in all of our approaches to responsible investment. That is the first thing.

The second thing is that you will see that we are all eager to tell good stories, but we are also demonstrating there is an eagerness also to seek out those opportunities in what is considered green at the moment. I think that is an important thing as well: to acknowledge that where these opportunities arise, there is clearly an appetite from institutional investors to invest.

Q147 Jerome Mayhew: I do not want to labour this because we are short on time but it is about bringing people along. Rather than investing in green opportunities, what I am interested in is where the engagement of the financial sector has required through its engagement an improved performance.

Steve Waygood: One of your earlier points was about the difference between the kinds of investment needed in the North Sea. It is important to try to understand the difference between operating expenditure, where I can imagine there many more years of OPEX in the North Sea to maintain a safe, low-emitting environment, and capital expenditure, where I would expect that to be running down—



Q148 **Jerome Mayhew:** I am not sure I would agree with you on that because—

Steve Waygood: You do need to operate things safely.

Jerome Mayhew: Yes, you have to operate things safely but you also have to have CAPEX in order to maintain even a declining level of production consistent with the plans of the CCC.

Steve Waygood: You should definitely be expecting declining CAPEX rates.

Q149 **Jerome Mayhew:** But you still need CAPEX as well as OPEX, do you not?

Steve Waygood: Yes, but a declining rate of CAPEX. That will be one thing that we need. You then said, “What happens if we all divest?” There has been a false dichotomy presented between the divestment versus engagement movement. There are some funds that obviously can’t: passive funds can’t divest; they have to track. They will divest in ratio to the actual index. Active managers can and should at a certain point but not as a badge of honour, which some civil society organisations would look to us to do, but more as a failed engagement process where at a certain point it is just not a good thing for us as an insurance company’s fund manager to be allocating client capital to companies that are not transitioning to the future that we need them to transition to in order for our business to run.

The third part of your question was around engagement wins. We have targeted many companies; 220 coal companies are on the stop list because they did not respond from 2015 onwards to our engagement. Two and a half years ago we challenged 30 of the biggest emitters in credit and equity portfolios, mainly oil and gas—global oil and gas. Since then we have had over 200 meetings with those institutions and we can point to over 100 substantive changes that have taken place. Tim is absolutely right to say we cannot claim unique credit for them—we cannot know who else is engaging with them at the same time for all sorts of good reasons—but we can say that two-thirds of them now have transition plans and they did not before we started engaging. Engagement can work.

Q150 **Jerome Mayhew:** Has this process been difficult for you?

Steve Waygood: Yes, it has been particularly difficult, and this goes back to a question from Ms Lucas earlier, we are not big investors globally everywhere. We are particularly big, obviously, in the UK, Canada and Europe. Elsewhere, for example in the Middle East, in Central America, in Russia, we are not such a big corporate entity from an investment perspective. It is interesting when you look at the state-owned enterprises that also list oil and gas businesses, they tend to be among the laggards. That tends to correlate incidentally with how they then vote at COP in terms of change.



We need your support and help, perhaps with the FCDO—

Q151 **Jerome Mayhew:** You are a mind reader. My final question is: what recommendations do you have for us in Government? How can we help in this process? How can we ensure financial institutions are actively and effectively engaging with the fossil-fuel related businesses? You guys are doing it but how do we help others to do it?

Michael Marks: If I may, Mr Mayhew. The role of the FRC has been incredibly important. The expectations of signing up to the stewardship code—we see the teeth with which the FRC will or will not accept those memberships based on active ownership reports or stewardship reports—has been beneficial, but seeing something like that given even more teeth I think, draws the strength of stewardship activity of the engagement. I could not agree more with Mr Waygood about our engagement—we cannot say we drove that outcome. We as an industry may have done that but getting the outcome is what is important and I think that is where the stewardship code, where the FRC, has really made a difference over the last few years and we look forward to a refresh of the stewardship code.

Q152 **Jerome Mayhew:** Are there any other recommendations?

Roslyn Stein: Transparency measures, which is what is referred to already and AXA IM publishes under that stewardship code. There is already an interesting amount of information, perhaps if you are interested to look further to see how it is reported. Certainly transparency—

Jerome Mayhew: I think you are going to hear some further questions about taxonomy. Mr Lord.

Tim Lord: A couple of broader thoughts, very quickly. We are talking a lot about what we need to get away from here and we do need to reduce investment in fossil fuels, we need to reduce dependence on fossil fuels. One very important thing that Government need to do in partnership with us and with others in the real economy is get the right incentives in place for the stuff that we do want to build. You mentioned hydrogen earlier, CCS—all those kinds of things that at the moment don't have a strong investment incentives in many markets globally, including in the UK, so need to be transitioning to something and making sure that we can replicate the success in renewables.

The second thing that we need to note is that we are focusing very heavily on the supply side and we need to be thinking about the demand side as well and making sure that we have markets for all the low-carbon fuels and so on that we are going to need, and thinking about what the markets for fossil fuels look like in the longer term. Otherwise that strong supply-side focus will always come up against the fact that you need the demand to be changing at the same time in order for the market and for the investment incentives to continue to work effectively.



Jerome Mayhew: Last word to Mr Waygood.

Steve Waygood: Thank you. It would be wonderful to be able to use the network of embassies and maybe the offices of the FCDO to engage better with organisations in Central America and the Middle East where I know other peer investors also are experiencing problems mobilising the state-owned enterprises. They would probably listen to us if we were able to work with you more.

There is also an interesting question around our sovereign investments as a direct sovereign asset class. This is a transition not just for the corporates, which we have all be focusing on, but for the country too. The question about how we engage in that way is clearly something that as an industry we are beginning to confront. We find ourselves lending money to countries who are then slowing down the transition at the UNFCCC process, which is clearly not in an insurance company's interest. How does one navigate that? It is one of the frontiers of discussion in the investment world.

Chair: I will just say that we are trying to finish at 4 o'clock so we have just under 10 minutes each for three more colleagues to come in.

Q153 **Duncan Baker:** Consider that half the world's fossil fuel assets will potentially be stranded by 2036, which is the research that we have had from Carbon Tracker, that is some \$11 trillion to \$14 trillion. Many of your headquarters are within London, which is identified as an area which is most at risk as a financial centre from stranded assets. What are you doing in terms of making sure that the onus doesn't fall on investors, shareholders and taxpayers, who could suffer with that, and managing the risk? When Mark Carney was before us in October, he made it very clear that he felt that there was a government responsibility and role to support us, given that the economy and also our lives would be changed substantially as we raced towards net zero. Do you agree that the Government do have a role, particularly in minimising the potential costs of those stranded assets being passed on to the state?

Could I start at the end—sorry to pick on you, Mr Marks?

Michael Marks: Mr Baker, as I said I think in a prior response, the need for us to work with those companies to ensure that they have plans that are very clear, and that their transition plans are clear in terms of the short, medium and long term of how they will run down those assets, is the most impactful thing we can do to avoid the stranded assets and ensure that they are minimised to the extent feasible.

That is where we focus a vast amount of attention. My team and I are engaging with those companies, just as my peers have been saying about their engagement with oil and gas companies. We need to continue our efforts and ensure that that is part of what they do. We are very transparent about those expectations and publish them on our website.

Q154 **Duncan Baker:** And the Mark Carney point?



Michael Marks: I couldn't answer for him, I believe it is incumbent on us to drive that, ensuring that the corporates that are creating that potential risk are addressing that risk for themselves in the first instance.

Q155 **Duncan Baker:** What about the Government's role in that?

Michael Marks: There may well be in the last resort a need for Governments to fill that gap, but it is, I would say, in the last resort. We should focus our attentions on what we can do here and now today about this looming issue.

Tim Lord: I mentioned earlier that one of the objectives of our energy policy is around an orderly transition. Clearly, if we end up with a significant stranding of assets, that means we are experiencing a disorderly transition and we need to move pretty quickly, I think, to avoid that.

The point I would start with, picking up on the Mark Carney point, is that clarity on direction of travel, both internationally and at national level, within sectors matters enormously because we need to be, as was said earlier, transitioning from something and to something. So being very clear about how is that happening and when—for example in the UK power sector we are confident now we can deliver a net-zero power sector here in the UK, and we are pretty confident that can be cost effective. The real clarity of plans in order to achieve that matters enormously, as does having the financial incentives in place for all the things that you will need to replace the existing fossil capacity.

My last point is that I very much agree with the point around transition plans. That, for us, is an important tool around risk management, around thinking about the longevity of some of the assets that the companies we work with might have and making sure that they have plans in place to mitigate the risk of stranded asset. Obviously those will vary depending on the technologies and the projects involved and the geographies in which they operate.

Duncan Baker: I will come on to that point in just a minute. I do not think AXA has its headquarters in London, so I shall come back to you in just a second, if that is okay. Mr Waygood.

Steve Waygood: The work of Carbon Tracker has been at the absolute forefront of this debate for many years. I am not just saying that because the founder is sitting right behind me. It is absolutely exceptional work and has been used systematically. Perhaps the greatest risk of our continuing to own stranded assets would be almost by definition in the illiquid market asset class—so in infrastructure investment, real assets, real estate—because by definition they are hard to sell. For the last five years we have embedded an assessment of the likelihood of the asset being stranded in our own assessment of the investment and I know that we have walked away from, or not invested in, specific real assets as a consequence of this very real risk that we perceive.



There is definitely a role for Government. As has already been alluded to, it needs to be a well-managed transition. I think that is driven through the cost of carbon, hopefully a predictably escalating cost of carbon. I was talking to one of our fund managers recently who mentioned that the UK ETS has been more volatile than bitcoin as a natural asset. That is not helpful when it comes to a well-managed transition, so a predictable escalating path that gets north of £150 soon, I would say.

Other things the UK Government can do as well as making sure the cost of carbon is escalating in a predictable way include a just transition fund that is financed through perhaps an obligation on the fossil fuel sector to pay for the carbon capture and storage of its own emissions. In other sectors there is a producer responsibility obligation to finance the recovery of the waste that is created in their products. I do not know why that doesn't extend to the fossil fuel sector, but if it were to, that fund could also be deployed to help ensure that these assets were well managed and transitioned to. Of course we absolutely need carbon capture and storage at a scale that we are nowhere near yet.

Q156 Duncan Baker: Roslyn Stein, you have touched on just transition in some of your answers. Clearly it is a case that you are considering environmental policies when looking at a just transition but, just going to a little bit further than that, how are you engaging with stakeholders and local and national government to address the negative impacts on some of those communities that could suffer from a transition to net-zero economy?

In my constituency, for instance, I have one of the largest gas works in the entire country coming in. The economic benefit to that community, to all the people who work in it and users and to neighbouring satellite sites is enormous. If that transitions into a net zero area and it does not end up becoming a hydrogen plant or anything like that, the impact on the local area will be enormous so many ways. What role and responsibility do you take in looking at those just transition factors?

Roslyn Stein: I would start to answer that question by saying that as an insurer, we are particularly attentive and sensitive to this issue because if we do not have an orderly transition, it will not be just. We do have a macro view on the importance of that.

One of the things I found particularly interesting is how the recommendations from the TPT include a piece around engagement. This is perhaps an evolution we may see in the future in how private firms engage on some of the issues related to climate change.

Being an EU-headquartered firm—we are in France—we have also regular dialogue with the unions as is required, and that is the first point of contact for dialogue with that civil society, including just transition, for example.

Duncan Baker: Same question to you, Mr Lord.



Tim Lord: I agree with a lot of what has been said. The other thing that some financial institutions can bring is not just an asset class perspective or a sectoral perspective, but a regional perspective as well. You talked about the challenges in the area that you represent, and in many parts of the country this is not simply about swim lanes of different sectors; it is about how does a local economy actually work in a net-zero context? What are the opportunities within that local economy? Certainly something we are looking to do for our business banking is thinking in that regional and more integrated way. We are certainly keen to work with government at all levels and local representatives to think about how we best facilitate that.

The second point I would make is to quite a significant degree change is coming in the global economy and it is happening right now. The more that the UK more broadly can get ahead of that transition, identify the areas where we have competitive advantage and make sure we have the frameworks in place to support that, the better.

Chair: Duncan, if you do not mind, I think we had better move on to Cherilyn Mackrory.

Q157 **Cherilyn Mackrory:** I will rattle through these. Apologies for doing that. Roslyn Stein, if I can start with you, you mentioned when you were answering questions to the Chair earlier that you see the UK as a very attractive market and you gave some examples of why. Considering you are the only one with headquarters overseas, could you advise how AXA is ensuring that the UK is a priority for your green investments?

Roslyn Stein: Yes, I have given some examples already. We have a large presence here in London. We also have our asset management set-up here, as well as our large commercial insurer AXA XL, for which the UK is an important market, and AXA UK, which covers both retail and commercial clients. The fact that a large part of our asset management activities are based here points to the importance of London as a financial centre, as it will continue to be. Being the economy that it is, it is naturally an attractive market for us and we will continue to explore opportunities to invest here, particularly in the energy transition.

Q158 **Cherilyn Mackrory:** Michael Marks, you mentioned your nature-related net-zero targets. The Green Finance Institute has estimated that we need tens of billions more in investment above the current public sector commitments. How is your institution aligning its investments and activities in the UK's nature and biodiversity goals? Could you give some examples?

Michael Marks: Of course, and thank you for the question, Ms Mackrory, because it gives me a chance to wax lyrical.

I said before we will not achieve net zero without addressing things like deforestation. Just to put it in context, although I am sure you are familiar with many of the statistics, over the 30 years between 1990 and 2020, we lost 420 million hectares of forests globally; and the amount of



global greenhouse gas emissions that come from agricultural deforestation is more than from the whole of the EU. We have to think about this and address it; it is really critical.

I talked earlier about the way we are engaging with companies that have these risks within the portfolios of their supply chains, but it is also important, as we were talking about the just transition, to ask the question of those companies: what is the activity that you need to perform and how will you take into account the local communities, your employees and so on? We understand the very complex nature of this. From an investment management business perspective, we have been looking at the potential ways in which our clients can invest directly into nature-related products. We are probably a little ahead of the demand that clients are coming to us with there but we believe we have many ideas that would be useful to them.

Within our own businesses and the businesses we operate, we think about biodiversity in the breadth of everything that we do. We have a number of businesses where biodiversity is absolutely critical and we are addressing that proactively in our operations.

Q159 Cherilyn Mackrory: Steve Waygood and Tim Lord, could we talk a little bit about the barriers that are potentially in the UK at the moment? We have many inquiries, as you can imagine, on this Committee and one thing that always comes up is because of the net-zero target that we are trying to meet at 2050, some of the technologies are at the VHS/Betamax stage where one has not overtaken the other yet. As investors, how do you overcome that barrier? Could you outline other barriers that you might be facing as an investment company into getting tangible investments here in the UK?

Tim Lord: The first thing to say is that in many respects the UK is a very attractive investment market. It is absolutely a priority for HSBC. You have seen investment flowing into offshore wind. I have used the example before but that is probably because it is the best one. We can do this stuff well in the UK, absolutely.

With the barriers—I will brief because we have touched on some of them already—the key thing is the need for a much stronger investment pipeline in the technologies that we need. Net zero is complex in many respects, but if you look at the CCC analysis and the Government analysis, you are pretty clear what you need over the next 10 or 15 years in terms of technology deployment; however, we do not always have the right economic incentives in order to deliver it. We would be keen to see more of that so that we can invest more.

Q160 Cherilyn Mackrory: Could you expand on that? If we are talking about something like critical minerals, for example, or retrofitting, how clear does the Government have to be and how much of this should be industry and private sector led?



Tim Lord: What we want is a level playing field we can compete on—for example, in the space of building retrofit and clean heating. The problem at the moment is there is not a playing field for us to compete on at anything like the scale that we need to, so we do need more clarity around the technology pathway that the Government wants to follow. We touched on stranded assets earlier. What do we do with the gas grid? What role does it have? We need clarity around that.

Secondly, we need to make sure that the economic incentives are there and, thirdly, we need to make sure there is a supply chain that can deliver that. That is a slight chicken and egg problem but what we need is the policy clarity and direction up front and then I think what you will see is the market moving to serve customer demand. Ultimately demand is not as strong as it needs to be to get us from where we are now doing 50,000 or 60,000 heat pumps a year. The Government said 600,000 by 2028 and the CCC have 1.3 million by the early 2030s. We need to do quite a lot of heavy lifting to get there but if we can get the incentives right then I am very confident—and this is true of other technologies and sectors as well—that the sector can provide the finance to enable that to happen.

Steve Waygood: I agree, again, with everything Tim Lord is saying. It is interesting how much unanimity there has been across the entire panel. I would not disagree with anything anyone said ever, or so far on this point anyway.

The whole-economy transition plan point I made earlier is something I would emphasise again here. Apart from in a few areas like autos and in home heating, there has been no clear policy or regulatory trajectory as clear as it needs be to mobilise the transition. That would be one consistent point. Second, we need a material price in carbon that is stable and predictably going up. It has only been a few years that we have had one in the UK separate to the ETS, but I remember when the EU ETS was trading at €1; it is now roughly €100. We need that kind of growth over a much shorter trajectory in the UK to mobilise the economic incentives.

A different point that no one has made yet is that our end clients tend not to understand how their products work. Pension beneficiaries do not tend to understand what it is invested in, but when you explain to them how they work, most people care. If there was a financial literacy move to close that gap, which is huge, and enable people to make their money matter as the organisation Make My Money Matter calls it, I think it would be very helpful.

We need more demand from end investors and retail investors for the kind of product that you are looking to promote.

Q161 **Cherilyn Mackrory:** Michael Marks, very quickly, finally—because I have to dash, apologies—with 82% of emissions under the scope and influence of local authorities in particular, what steps are you taking to support



local authorities to work towards a net-zero pathway?

Michael Marks: Legal and General works very closely with many local authorities, many communities and many combined authorities on a host of aspects. We need to speed levelling up and we need to also invest in green power. Let me give you an example. One of our scale-up investments is in the UK's only ground source heat pump company, Kensa—

Cherilyn Mackrory: In my constituency.

Michael Marks: There is a partnership with Thurrock Council and Kensa to replace traditional heating inside three tower blocks, which has a huge benefit to the residents in terms of the cost of the heating so a just transition for them as well as greenifying their power needs.

We continue to look for those opportunities, we continue to look for opportunities to invest in the UK and in the UK's needs. As I said earlier, some more legislative support and change, particularly around Solvency UK, will free up capital to achieve much more.

Chair: Our last question is from our latest recruit to the Committee, welcome, Cat Smith.

Q162 **Cat Smith:** I do not have much time so I hope that if I fast-fire the questions, it will not appear too rude. I would like to begin with questions to Mr Waygood and Ms Stein.

What impact do you think the requirement for the mandatory publication of transition plans will have on the financial sectors' efforts to support decarbonisation in the UK economy?

Roslyn Stein: It has already been expressed today that better transparency and comparability that will help a great deal. It will enable us as investors in particular to be able to understand properly what are the trajectories of the companies in our portfolio, for instance, or those that we are financing to have informed dialogue with them as well and be able to make decisions accordingly. We consider it to be a very positive thing.

I would also just like to mention that in the EU at the moment, it is also anticipated that we would see requirements for transition plans in the corporate sustainability reporting directive. Again, I go back to the point about consistency as much as is reasonably possible between different jurisdictions in this area.

Steve Waygood: From our perspective, Amanda Blanc, who co-chairs the Transition Plan Taskforce, is our group chief executive, so we are very strongly behind transition plans. We also believe they should be mandated—we know that is the trajectory going forwards—and be put to the vote, which I hope happens.



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I would amplify something I said earlier, which is that transition plans are not just a corporate question. One third of the liquid market—about \$90 trillion globally—is sovereign, sub-sovereign and supranational agencies. We would like to see their transition plans too.

I should declare an interest. I serve on the Taskforce for Climate-Related Financial Disclosure and have done since 2015. All the guidance the TCFD produces, which the International Standard Setting Board will be taking forward, which is great, and all the guidance relates to corporate disclosure, not country or supranational disclosure. We need the TCFD to now be mandated by the G20 to close that gap. You have asked about transition plans; I am merely highlighting that they are whole-economy, global issues, not just corporate.

Q163 Cat Smith: Ms Stein, you were referring to some of the EU aspects. We are expecting the UK green taxonomy as part of the Government's refreshed green finance strategy. It supposedly going to be broadly based on the EU taxonomy. Could you expand on your previous answer to say whether or not there are any issues in your view with implementing the EU taxonomy?

Roslyn Stein: Of course I would be happy to share our experience. The first thing to say is it is relatively early days so we are at the very beginning of that journey. The challenge around operationalising these obligations and ensuring that we are able to collect the data and report it is one that we are all dealing with at the moment. It is a little bit early to be able to say what impact it will have but I think that in the first phase what we can observe in the market where I am is that firms are focused on ensuring that they have the resources to be able to fulfil these obligations.

One outstanding issue that we have identified in relation to the EU taxonomy is that we do not yet have a position, an agreement, a consensus, on what is transition finance. The taxonomy is very clear on what is green, but everything that is not yet green, there is no other way to classify it at the moment. We can note, for instance, that GFANZ has done some work setting out some categories of what transition finance could look like. From our experience in the EU, the operationalising part is still underway, but we have also observed that, absent some guidance on what is transition, we quite quickly end up in these debates about whether to divest from oil and gas or to engage. That is just something we can share with this Committee today from a different jurisdiction.

Q164 Cat Smith: Perhaps I could expand the question to our other witness. The UK's exit from the EU gives us an opportunity, of course, for divergence. Do any of our other witnesses have anything they would like to say around any opportunities they see with that? Should we be keeping regulatory alignment with EU member states or are there opportunities in divergence?

Michael Marks: You asked two questions there, Ms Smith.



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When I think about some of the comments just made, one of the challenges around the EU regulations has been that the corporate reporting has been in terms of what sort of business activities you have been performing and how you are reporting; what has been lagging are expectations of how you finance that, and getting those things aligned is very important. When we think about regulatory divergence, one of the really interesting aspects of the proposed SDR regulations from the FCA is that transition finance piece. It is very important that we do allow for moving capital to help fund brown to green as it is colloquially called—those dirtier companies to green companies—because just focusing on green does not change the underlying world. We need to change the economy from shift and shift things from where we are, hence the reason we use transition.

Encapsulating and maintaining that is very important. We have probably overused the word “transition” today, and we all know what that means, but it is that shift of what is going on in the economy from dirtier power to clean power from all of those aspects.

Steve Waygood: This is not how the world works so I would just caveat what I am about to say with that, but what would be ideal from the perspective of global markets is to have one global taxonomy that is broadly endorsed. At the moment we are almost seeing countries competing with each other and not just on the taxonomy; it is other sustainable finance standards too, and disclosure.

For those of us that are global, that makes the cost of execution and the resources involved much more material and probably less effective. It gives us less resource to encourage companies to undertake the transition. To my mind, as far as possible and reasonable, I agree we would be looking for alignment. I should also say I was in a high-level expert group in Europe for the Sustainable Finance Action Plan and we were very positive about a lot of the outcomes from that particular project.

The taxonomy being binary, as Roslyn suggests, is unfortunate because, of course, there is nothing in life that you can say is purely green or purely evil. This is a spectrum—I have heard 50 shades of green mentioned elsewhere. That is something that we need.

Roslyn Stein: I would just add that the compliance burden is something that would be important to take into consideration when looking at the approach, because it is a significant mobiliser of human capital and potentially comes at the cost of being able to work on other things.

Cat Smith: Mr Lord, would you like to add anything?

Tim Lord: I agree with that. We certainly would support international convergence over fragmentation. Convergence with ambition, I guess. We need to think about particular things that might sensibly be different



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about the UK but similarly we work globally and I certainly agree with the point about the overhead.

The other point I make is you cannot taxonomy your way to a net-zero economy, right? Being able to put things within a taxonomy can be helpful, absolutely, but the fundamentals are you need the economic incentive, you need the supply and the demand side to be working in concert with one another. We need to be cautious, as you say, not just within our companies but in terms of what the Government is doing, not to be focusing too much time on taxonomies at the expense of getting the policies in place that will drive the investment and the growth that we need.

Q165 **Chair:** Just to conclude on that, for our Committee to make recommendations to the Government, which is how this system works, are there some logical forums on a global taxonomy through which we could encourage the Government to drive a move towards commonality? You mentioned your work on the EU Committee, is there something like the Basel accord that we could bring into play?

Steve Waygood: The Green Finance Institute in the UK led by Rhian-Mari Thomas is an excellent port of call in this question. I was listening to Rhian-Mari talk yesterday about her vision for how a taxonomy in the UK could work were we to diverge. It sounded good.

Q166 **Chair:** We do not want to diverge.

Steve Waygood: In that one respect the taxonomy needs—it is the first attempt by any group of Governments or any Government to codify the world. It was a multiple PhD research question and they have done a reasonably good job as a first attempt but it needs to go through a lot more iterations to be economically relevant and then become embedded in solvency, regulation and financial stability more generally. I would rather what Rhian-Mari is recommending for the UK then be adopted in Europe, if we can make that happen.

Q167 **Chair:** Does anybody have any other ideas or do you agree with that?

Michael Marks: Slightly adjacent to that is the support for the ISSB, the International Sustainability Standards Board. The more that we see common standards globally the more that will drive action in the same direction at pace. Pace is the word I would probably emphasise. There is not time to sit back on this. Inaction is not an option.

Q168 **Barry Gardiner:** Is that reason that you say that on this we need some element of divergence, because you want to go further faster in effect?

Steve Waygood: Well, put. Absolutely.

Q169 **Chair:** Tim, from your previous role, can you give any insights here on this particular subject? Should be forging our own furrow?



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Tim Lord: I would repeat what I said before. International convergence over fragmentation is better because ultimately the UK being significantly diverged from international standards will just increase complexity for what is obviously a very globalised sector. Many of the companies that we work with are very globalised as well. Having said that, I do agree that there may be some elements where we can go further and faster.

Chair: Very good. I am going to call it a day. I thank our panellists, Steve Waygood, Roslyn Stein, Tim Lord and Mike Marks, and our Committee clerk, Sarah Elkhawad, who put together our brief. I will conclude by again welcoming Cat Smith to the Committee. Thank you very much indeed.