

Written evidence submitted by WWF

INTRODUCTION

1. WWF is the world's leading independent conservation organisation. Our mission is to create a world where people and wildlife can thrive together. To achieve our mission, we're finding ways to help transform the future for the world's wildlife, rivers, forests and seas; pushing for a reduction in carbon emissions that will avoid catastrophic climate change; and pressing for measures to help people live sustainably, within the means of our one planet.
2. WWF has welcomed the formation of the Glasgow Financial Alliance for Net Zero (GFANZ), the government's COP26 commitment that the UK will become the world's first net zero financial centre, and the recent launch of the Transition Plan Taskforce. We believe the power of the financial system must be harnessed to drive net zero and nature commitments, help develop science-based guidance and policy recommendations and ultimately move closer to a net zero, nature-positive global financial system and economy. As such, we welcome the opportunity to contribute to this inquiry and would be happy to provide additional information, further testimony or an expert witness, should it be helpful to the inquiry.
3. This submission does not seek to answer all questions of the inquiry, just those where our policy work has direct relevance.

SUMMARY

4. Financial services are critically important to meaningful progress towards net zero, climate and nature goals, including in terms of achieving the government's commitment to making the UK the world's first net zero financial centre.
5. Whilst WWF UK strongly welcomes GFANZ as part of a range of efforts to harness the power of finance (and also welcomes initiatives elsewhere such as the Transition Plan Taskforce, Sustainable Disclosure Requirements and UK Green Taxonomy), given the scale of the challenge, any single initiative will be necessary but not sufficient on its own. We will only have a financial system that aligns with net zero if financial institutions, the real economy, government and regulators are all pulling in the same direction.
6. Initiatives like GFANZ need to ensure that they are not allowing organisations to mask slow progress on sustainability, without proof that their actions meet their stated commitments, particularly in relation to exposure to fossil fuels and other unsustainable financing practices.
7. The government needs to ensure that its regulatory approach in future meets its ambitions in this area – notably, through the regulators being given a climate and nature regulatory objective as part of the Future Regulatory Framework (and upcoming Financial Services and Markets Bill).
8. Some areas, such as any expansion of fossil fuel investment, must stop immediately, in keeping with 1.5C aligned, science-based scenarios. This must be reflected in the work of GFANZ and its members, including clear policies for phaseout of unabated fossil fuels, as explicitly outlined in the updated UN-backed Race to Zero criteria.

9. The Race to Zero criteria underpin GFANZ and net zero alliances. GFANZ must ensure that if its members fail to demonstrate sufficient progress or action in relation to these criteria and commitments, that there are sufficient accountability mechanisms in place, including making use of a process to remove members from the alliance if necessary.
10. Nature is also critical to achieving net zero, and needs to be a core part of initiatives, like GFANZ, and government policy, such as transition plans and the Green Finance Strategy.
11. Further, asset managers, regulated asset owners and listed companies are not yet mandated to produce transition plans. To be fully effective in meeting the government's net zero commitment, these plans should be mandatory.

WWF RESPONSE

Corporate approaches to the financing of existing and planned fossil fuel projects

12. Reducing investment in fossil fuel extraction is critical to decarbonising the whole economy. WWF UK believes that unless policies and initiatives drive a cessation of new fossil fuel investment (in particular immediate cessation of financing new coal powerplants and related infrastructures) and reduce existing investment in an orderly and responsible manner (in relation to divestment activity, for instance), they cannot be seen as credible.
13. All of the policy areas listed under paragraph 27 below have the potential to drive a reduction in fossil fuel investment. Perhaps the most obvious is the exclusion of gas in the UK Green Taxonomy. Decisions such as these will be critical in whether we achieve net zero or not.
14. Alliances such as GFANZ also have the potential to help drive that reduction, through their process of commitment, then execution, disclosure, and suitable assurance.
15. WWF UK believes FS firms looking at financing fossil fuel projects in their own portfolios must take into account that:
 - a) Any expansion or new financing of fossil fuel projects is incompatible with IEA evidence on achieving net zero¹;
 - b) It is not viable as a long-term strategy – as mentioned in the call for evidence, the profitability of such investments will likely reduce in the mid to long term. The Intergovernmental Panel on Climate Change have said that limiting warming to around 1.5°C requires global greenhouse gas emissions to reduce by approximately 50% by 2030.² Work by GFANZ and others to increase business investment timelines could therefore be an effective strategy to tackle this issue.
16. WWF UK will be carefully studying the submissions from FS firms to this inquiry.

¹ https://iea.blob.core.windows.net/assets/7ebafc81-74ed-412b-9c60-5cc32c8396e4/NetZeroby2050-ARoadmapfortheGlobalEnergySector-SummaryforPolicyMakers_CORR.pdf

² The evidence is clear: the time for action is now. We can halve emissions by 2030. — IPCC

The potential effectiveness of the financial sector, including through alliances such as GFANZ, in encouraging the decarbonisation of the economy in time to limit global temperature rises to 1.5°C

17. The climate and nature crises demand urgent action. In order to reach net zero and a nature positive world, we need to halve emissions by 2030, and to halt and reverse nature loss. This should be reflected in GFANZ members' transition plans – it is imperative to have short-term targets in line with the objective to halve emissions by 2030, together with interim measurements and re-assessments to ensure the plan is executed adequately).
18. WWF UK have strongly welcomed GFANZ as part of efforts to harness the power of finance, however given the scale of the challenge, any single initiative will be necessary but not sufficient. Crucially, the scale and urgency of action requires all parts of the system to act – government, regulators, investors, lenders, real economy corporates etc.
19. The commitments of GFANZ signatories, and the progress so far are very welcome. Alliances such as GFANZ bring the power of collective action (in this case it is imperative that we decarbonise the whole economy, not just individual firms' portfolios, for example). GFANZ also facilitates collaboration across sectors of finance and contributes to the technical debate on net zero related practices, with a number of ongoing workstreams and additive **publications**.
20. However, this should be balanced against considerations about the nature of any voluntary initiative such as GFANZ: many of those not signed up will not progress as fast, creating a potentially large tail of laggards, and there is a risk that market standards are varied and inconsistently applied across FS firms, leading to inaction, continued investment in fossil fuels and high-emitting assets and a race to the bottom.
21. Moreover, even those who are signed up are not necessarily subject to any robust accountability mechanisms, thus GFANZ risks creating an accountability gap for those firms which sign up to the relevant standards but do not then deliver.
22. GFANZ also needs to consider how it maintains credibility in its brand, by looking at how members' commitments are verified. With greenwashing an ever-present risk, it is essential that initiatives like GFANZ are not used by organisations to mask real progress, without proof that their actions meet their stated commitments. There are a variety of ways to make this verification and accountability happen which should be high on GFANZ's agenda, particularly in the run up to COP27.
23. For example, the role of GFANZ should be expanded to include monitoring of commitments – it is currently unclear whether any monitoring is taking place and independent auditing is necessary to ensure that GFANZ is not masking real progress. Without such monitoring, accountability is not possible. If GFANZ does not expand its role independently, the government should ensure that it does.
24. Additionally, there are over 450 members, under seven sub-sector net zero alliances. There is inconsistency both within alliances and across them, with varying levels of activity and effectiveness. GFANZ should ensure that there is consistency across alliances in terms of ambition, and progress.
25. Whilst some members of GFANZ are active, there is a silent majority who are not. If failing to demonstrate sufficient progress or action on commitments (for example, in meeting the updated Race to Zero criteria), GFANZ could adopt a process that

removes members from the alliance. This process has already been outlined in early **GFANZ documentation** (page 1, November 2021) but as yet does not appear to have been followed through.

26. Financial Services are critically important to meaningful progress on climate and nature. UK banks and asset managers are responsible for nearly twice the annual carbon output³ of the entire UK population. This is why the government's target of making the UK the world's first net zero financial centre, set at the Glasgow climate talks last year, is so important⁴.
27. There are significant opportunities for the UK to deliver on its climate and nature commitments, future-proof financial services, and demonstrate global leadership through current legislative and regulatory reforms, not least through:
 - a) The **Future Regulatory Framework**. The government's Future Regulatory Framework (FRF), to be delivered through an upcoming Financial Services and Markets (FSM) Bill, will determine how financial services regulation is developed in the UK outside of the EU. The proposals include a major delegation of powers to, and renewed objectives for, the regulators (primarily the Financial Conduct Authority and the Prudential Regulation Authority).
 - b) The **Transition Plan Taskforce (TPT)**, which aims to develop a gold standard for climate transition plans, after the Chancellor's commitment to requiring asset managers, regulated asset owners and listed companies to publish transition plans that consider the government's net zero commitment (or explaining why they have not produced a plan) at COP26. The TPT is working to develop guidance and best practice that regulators will draw on to drive high quality net zero planning for FS companies and help avoid greenwashing. To be fully effective, these transition plans should be mandatory.
 - c) **Sustainability Disclosure Requirements**, which will create a framework for information flows between corporates and investors.
 - d) The **UK Green Taxonomy**, which will be a framework around whether investments can be defined as environmentally sustainable or not. This should help tackle 'greenwashing', improve understanding of environmental impact to help companies and investors make informed green choices, support investment in sustainable projects and boost efforts to tackle climate change – but only if a science-based approach is taken to defining what is 'green'.⁵⁶
28. If done right, a strong legislative and regulatory framework for financial services would *have the potential to* lead the global transition towards a low carbon economy and would provide the necessary tools to enforce accountability and fight greenwashing.

³ <https://www.wwf.org.uk/updates/uk-banks-and-investors-responsible-more-co2-emissions>

⁴ <https://financeinnovationlab.org/the-government-is-to-prioritise-the-city-over-the-climate-so-much-for-the-promises-made-at-cop26/>

⁵ <https://www.greenfinanceinstitute.co.uk/programmes/uk-green-taxonomy-gtag/>

⁶ <https://9tj4025ol53byww26jdkao0x-wpengine.netdna-ssl.com/wp-content/uploads/Joint-CSO-statement-on-UK-Green-Taxonomy-31st-May-2022.pdf>

29. But in order to do so, a number of important conditions must be met:
- a. It must be based on scientific evidence and underpinned by enhanced transparency and accountability.
 - b. It must recognise climate and nature as deeply interconnected systemic risks that need to be tackled together.
 - c. It will also be critical for this framework to include duties and a statutory objective on climate and nature protection to ensure that this is a priority.

Example of FS Policy Change: Regulatory Statutory Objective

30. Under the FRF, and through the FSM Bill, the regulators will be mandated to regulate and supervise the financial services industry in accordance with their updated statutory objectives and principles.
31. The objectives parliament sets for the new regulatory architecture are therefore critical. They will determine all future rules that structure and support the UK financial services industry.
32. This means that the FSM Bill is a unique legislative moment for climate action and nature protection.
33. As things stand, the proposals expected to be included in the Bill miss the opportunity to prioritise climate and nature in financial regulation.
34. The government will not realise its own ambition to become the world's first net-zero financial centre without acting now to strengthen the rules being developed for the financial sector.
35. The regulators need a new statutory objective on climate and nature that will give them the clear legal mandate to take appropriate action. The current proposal, to expand the regulatory principle on sustainable growth to incorporate the government's net zero commitment, is insufficient.
36. We have produced a briefing for parliamentarians on this topic ([Finance Innovation Lab/WWF/ShareAction parliamentary briefing on the Financial Services Bill.](#))
37. More broadly, WWF UK and Aviva plc recently published a paper on what key actions the government should take next – including in its forthcoming update of the Green Finance Strategy – to deliver on its commitment to a net zero transition and move closer to delivering a net zero finance centre⁷.

Decarbonisation and the Nature Crisis

⁷ <https://static.aviva.io/content/dam/aviva-corporate/documents/socialpurpose/pdfs/Aligning%20the%20Financial%20System%20to%20Net%20Zero%20May%202022.pdf>

38. It is critical to recognise that net zero and nature are deeply interconnected issues that must be tackled together. Put simply, we need a nature positive economy to achieve our net zero goals, and we need that reflected in the activity of financial markets.
39. The importance of this has already been reflected in the G7 2030 Nature Compact, G7 Leaders Pledge for Nature, the Conference of Parties on Biodiversity (CDB15), at COP26 and the Dasgupta Review on the Economics of Biodiversity.
40. Nature is critical to achieving net zero, and the UK is in danger of failing to meet its legally binding nature-related targets. More than 23% of the world's emissions stem from land-use activity, including logging, deforestation, and farming⁸, and our recent report on Nationally Determined Contributions highlighted its importance.⁹
41. To achieve net zero, the UK's financial regulators must have a climate and nature protection objective.
42. There is an existing body of work and actions on nature which we can feed into the net zero transition. Some central banks, notably De Nederlandsche Bank (DNB), Banque de France and Bank Negara Malaysia, have published studies on their market's dependency and impact on nature, with all of them identifying the climate and nature link and impact of climate physical and transition risks on nature. These are supported by the Network of Central Banks and Supervisors Network for Greening the Financial System (NGFS) which highlighted the risks of biodiversity and ecosystem loss to financial stability.¹⁰
43. Given our collective experience on climate, and the fact that the nature crisis is already well understood, it is both necessary and possible to accelerate tackling the nature crisis and biodiversity loss by including it in current policy reforms, for example, in Transition Plans.
44. GFANZ's recent Transition Plan recommendations and guidance cite "biodiversity and nature-based solutions" in the section on areas for further work¹¹. This work needs to be completed urgently and a clear date should be stipulated for when it will be. The importance of biodiversity, including for financial risk and system stability, cannot be underestimated.¹²

Pathways to reducing investment in fossil fuel extraction

45. See comments in paras 4 – 11 above.

The effect (if any) on the pace and scale of disinvestment plans of disruption to supply chains and energy markets arising from the 2022 Russian invasion of Ukraine, and what is being done to mitigate any such effects

⁸ <https://www.gov.uk/government/news/over-100-leaders-make-landmark-pledge-to-end-deforestation-at-cop26>

⁹ https://wwfint.awsassets.panda.org/downloads/wwf_ndcs_for_nature_4th_edition.pdf

¹⁰ https://www.ngfs.net/sites/default/files/medias/documents/statement_on_nature_related_financial_risks_-_final.pdf

¹¹ https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Recommendations-and-Guidance-on-Net-zero-Transition-Plans-for-the-Financial-Sector_June2022.pdf

¹² https://www.ngfs.net/sites/default/files/medias/documents/central_banking_and_supervision_in_the_biosphere.pdf#page=10&zoom=auto,-82,7

46. The war in Ukraine has made addressing our unsustainable global energy and food systems both more urgent, and more difficult. For WWF, the war has provided another reason to rapidly shift away from fossil fuels. At a national level, previous investment in renewable energy would have reduced the significant rise in energy prices seen recently. WWF have outlined our view of how Governments and investors should respond to the war [here](#).

Likely pathways to the responsible retirement of fossil fuel assets, in a way which is compatible with the UK's national interest, reducing the risk of stranded assets and meeting the UK's international climate obligations

47. While others will want to comment on specific pathways, WWF believe that investors need clear, consistent, internationally-coherent policy direction from governments, that enables them to mitigate current and future risks associated with climate and nature. The financial sector also requires consistent, comparable data from corporates on their climate and nature impacts so that FS firms can make informed decisions about their business strategy and their own net zero and nature strategies.

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