

CIMA Submission Green Finance Strategy Consultation

About CIMA

Founded in 1919, The Chartered Institute of Management Accountants® (CIMA®) is the world's leading and largest professional body of management accountants. As part of the Association of International Certified Professional Accountants®, CIMA and its members and students operate in 192 countries and territories, working at the heart of business — in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its professional qualification and professional experience requirements to ensure it remains the employer's choice when recruiting financially trained business leaders.

General Comments

We welcome this consultation and the government's ambition for the UK to be a world leading green finance centre. To achieve this aim more action is required from government to help businesses, markets, investors and consumers take full advantage of green finance.

Given how successful the UK financial and professional services industries are, there is no reason that for green finance the same cannot be achieved. In order to get there government needs to take action and support industry much more quickly than is currently the case.

In our answers to the specific questions below we set out some of the actions we believe the government can take to support growth in green finance and support markets, businesses, investors and consumers with helping the government achieve the UK's climate and emissions targets.

The main areas we think the government can help is:

Frameworks – Clear regulatory frameworks need to be in place around green finance and sustainability. The government should work with regulators to provide businesses and investors with these frameworks.

Data and Metrics – Better quality data on green finance is needed both from the public and private sector. The government can help here by outlining what data it expects and wants to see, and support businesses with guidance and information on how to collect and interpret this data.

Measurement – Linked to the need for better quality data above, measurement also needs to improve. Measurement both by businesses, markets and government could be improved. More and better-quality data will help to improve measurement. Government should also use measurement more when making policy and

investment decisions around green finance to make sure where money is focussed it drives real value and better outcomes.

Skills and Knowledge – The UK already has a number of professionals with skills and experience to support green finance, however if the UK is to become a leader in green finance, then that skills pipeline and knowledge of green finance within business and the investment community needs to grow. Government can help support this by playing a key convening role, and signposting businesses to organisations and individuals who have skills and experience to support with green finance initiatives and projects. Government can also help by funding and producing training programmes for SMEs, and via having green finance modules in relevant apprenticeships to grow the skills pipeline.

Supporting SMEs – SMEs often do not have the resources or capacity compared to larger businesses to fully engage in green finance. The government can support SMEs with this by helping to improve training, signposting for SMEs on individuals and organisations that can help with green finance, providing clear expectations and frameworks for SMEs, and by providing communication to SMEs on the benefits to them of green finance and green initiatives.

Investments – The government could help by supporting investments and seeing what can be done to underwrite them and reduce some of the risks associated with them. We have heard of cases where it is very difficult to achieve investment as investors are not willing to take the risk on by themselves and this means projects that would help deliver good sustainability outcomes or emissions reductions don't receive investment. The government should explore what can be done to encourage more investment activity and help de-risk where appropriate some investments while green finance grows and takes hold in the UK.

Clear Communication – Throughout all of this the government need to clearly communicate their strategy and the policies within it to the markets, investors, businesses and consumers. This communication should be clear and show what journey is required to get the UK into a world leading green finance hub and also should display the benefits to each stakeholder of this ambition.

Below in greater detail we outline some specific suggestions and thoughts on how the government should update their green finance strategy to ensure the UK becomes a world leader in green finance.

Answers to Specific Questions

Q1) What are the key characteristics of a leading global centre for green finance?

One of the key characteristics to becoming a leading global centre for green finance is by ensuring the UK has the right frameworks in place to support this ambition. This includes legal, regulatory, reporting, financial and governmental frameworks that work together to underpin the UK as a world leading green finance hub.

The UK should ensure it does not get left behind by the rest of the world when it comes to ensuring it has the right frameworks in place to support green finance. There was a view from some of our members that the EU and individual European countries are moving quicker on this than the UK.

Another key characteristic is ensuring businesses, investors and consumers can access the right skills and professions in support of green finance investments and decisions. In Question 2 we focus more on skills, but ensuring the UK has the right skills across the piece – within businesses, audit and assurance, investor support, at the board room, etc... is a vital characteristic of a leading green finance capital.

Speed and being dynamic are very important too, and as the government moves forward with updating their strategy, they should ensure that policies and decisions that underpin and support green finance allow for speed and dynamism. This should be in terms of ensuring the strategy is adaptable enough to change as the green finance industry grows and more is understood about green investments and projects. Also, a key aspect is being able to access investment and cash quickly for green projects and initiatives and the strategy needs to address this.

Our members also raised the need to focus on investment as a key characteristic. A focus on viability when investment decisions are made in both the public and private sector is needed. Some of our members raised investments on green finance where they feel that focus on viability had not been there and that has led to money being wasted which could have been better spent and invested on other green finance initiatives which would have resulted in better outcomes.

Also, there has been cases where investment for green initiatives has not been achieved due to investors not willing to take on the risk. The government should look at investments to see what can be done to ensure viability is at its heart and where projects are viable what can be done to help investors invest by either de-risking or underwriting aspects if and where appropriate.

Q2) To what extent does the UK's private and public sectors have appropriate skills/capacity to attract international green finance flows?

We feel that the government should not only focus on skills and capacity, but knowledge and experience too as they are a key part of attracting green finance flows. Broadly we believe we do have adequate capacity and the right skills, knowledge, and experience here in the UK, but more needs to be done to enhance and grow these.

Accountants are highly capable in this area. Our syllabi have, for years, incorporated comprehensive sustainability content and our members are encouraged to access the comprehensive CPE content available to them to develop skills new to them through lifelong learning. Below we have shown examples of how our syllabus supports green finance and sustainability skills.

CGMA and Green Finance and Sustainability Skills

The [2019 CIMA Professional Qualification Syllabus](#) that underpins the CGMA designation of our members includes topics that explore green finance and sustainability.

At the Operational Level:

- *F1 Financial Reporting*
- *F1A: Regulatory environment of financial reporting includes Integrated Reporting <IR>*

At the Management Level

- *F2 Advanced Financial Reporting*
- *F2D: Integrated reporting includes the measurement and disclosure of the six capitals*

At the Strategic Level

- *E3 Strategic Management*
- *E3B: Analysing the organisational ecosystem – on the drivers of sustainability and corporate social responsibility.*
- *F3 Financial Strategy*
- *F3A: Financial policy decisions - advise on strategic financial objectives includes coverage of the United Nations Sustainable Development Goals (SDGs).*

The [CGMA Competency Framework: 2019 Update](#) is the foundation that will demonstrate the relevance and capabilities of a CGMA as a trusted finance and business strategist. Green finance and sustainability skills include,

Technical Skills

- *Cost accounting and management:*
 - *Cost accounting - Advise on the role of sustainability and environmental cost accounting and its contribution to improved environmental, social and financial business performance.*
- *Management reporting and analysis:*
 - *Management reporting – The process of delivering, discussing and reporting on the organisation's sustainability.*
 - *Integrated reporting – Design an integrated performance management system based on the six capitals and their contribution to value creation and use integrated reporting to promote integrated thinking in the organisation.*

However, green finance skills and knowledge need to go further than just accountants, it needs to be embedded across finance teams and wider in companies too. Skills in this space are needed from the board level down to operational roles. The different skills and knowledge needed in different operational and leadership roles needs to be factored in too.

Government can play a key convening and organising role when it comes to developing green finance and sustainability skills in the UK workforce.

One way government could help is by working with businesses across different regions to signpost to companies, consultants and individuals who have skills and experience in green finance, sustainability and reporting that businesses could then seek to use if required for green finance projects, investments or company reports. This 'matchmaking' service would help ensure that both the private and public sector are using the right skilled individuals and organisations in support of attracting green finance flows.

Supporting SMEs with training is also key. Often SMEs do not have the resources or depth to be able to train their workforce in these areas. This means many SMEs are missing out on the skills, knowledge and experience they need to support 'green' decisions, investments and projects. The government could help SMEs by convening and helping to fund green finance and business training courses in regions across the UK. There have been similar pilots for digital skills training aimed at SMEs and government should follow these models for green finance skills.

Apprenticeships are another key area where government can help generate the growing need for green finance skills and knowledge. This could be achieved by ensuring relevant apprenticeships such as finance, accountancy or business management for example have 'green finance and business' modules that need to be completed. This would help generate a pipeline of newly skilled workforces in this area.

Q5) How can the UK government measure progress towards becoming a leading global centre for green finance?

We feel that the government could use metrics and measures they have used to judge the success and progress of other industries and policies and apply them to green finance.

This should include how successful the UK green finance industry is compared to other nations, what proportion does green finance make of investment and business size, how many jobs are associated with green finance, what's the value add to the UK economy from green finance, how much investment is going into green finance, what is the return on that investment and how many trained professionals are there in green finance. These are just a few of the metrics government could use to judge the UK success in becoming a global leader in green finance.

These metrics alongside others should be reviewed yearly and the data published so a true measurement of UK success and progress in this space can be seen. Also, this data will help inform policies and actions that are most supporting UK green finance.

Q7) How can the UK support a financial system that leverages private investment to meet the UK's climate and environmental objectives?

We refer back to our answer in Question 1 where we highlighted the need for good and clear frameworks to support green finance. By having these clear frameworks in

place this would support private investment as investors would have confidence in the UK's regulatory and legal underpinning of green finance and what rules and systems businesses operate within.

The taxonomy of green finance should be released at the same time as the finalised strategy as this will help businesses understand what is defined as green or not. This will help businesses better understand their activities and investments and how green they are and also ensure they can make more informed decisions.

As we mentioned in an earlier answer speed is also an issue, particularly around funding and access to cash for green initiatives. The update to this strategy should ensure that being dynamic and supporting fast (but regulated via good and clear frameworks) green finance decisions.

SMEs are a key part of meeting the UK's climate and environmental objectives too, but they need support to engage and work towards them due to many having less resource and capability than larger businesses to support activity on green finance. We feel supporting SMEs to engage and support the UK climate and environmental objectives can be achieved by ensuring there are clear expectations of the whole business community, with clear and reasonable timeframes to support getting there and most importantly by showing the benefits to businesses of these objectives to them. This will help SMEs see and realise the value directly to them in supporting these goals and will likely result in faster action from SMEs in this space.

Q20) How can the UK financial sector support SMEs and retail customers to align with the UK's climate and environmental objectives?

As we answered in Question 7 incentivising SMEs and having clear expectations will help SMEs align with the UK's environmental and climate objectives.

Good communication with both SMEs and the public is also key in this area. This communication needs to be clear and easily understood. It should also show the positives of the journey for the public and SMEs which they both need to go on to meet the objectives.

Q23) How can we ensure that these markets encourage robust action on the UK's climate and environmental goals and approaching scale up finance flows to support these?

Corporate reporting will play a pivotal role in supporting increased public and investor confidence. In just the last few years there have been significant developments in the area of corporate reporting of non-financial information, and this will continue with the establishment of the International Sustainability Standards Board and new reporting standards (which may form a baseline for global ESG reporting). Consistent reporting will promote transparency, accountability, and enhance investor trust and confidence. With reference to current developments in this area, formal assurance on ESG data is inevitable.

Management accountants will play a key role in the development of corporate reporting on ESG information, with a focus on not only the underlying data but also the metrics and measures that will enable business to assess their strategic

performance and long term ESG goals. Strong corporate governance and reporting will be important for investors, and central to this will be the company's culture and commitment to long term sustainable growth.

In terms of supporting scaling up we refer to our answer in Question 2 where we mentioned the need for the 'matchmaking' service and the convening role government can play to support moves to green finance. This would also support the markets as well.

Q27) What market barriers are there to the integration of environmental related factors into financial decision making?

Many of our earlier answers have picked up the barriers. These barriers include lack of good quality data and metrics being used by companies, regulators and government; the need for more skills in the workforce to support integration of environmental factors into financial decision making; clear frameworks need to be in place; and more incentivisation for businesses and markets too.

Q28) What should the role of the UK government or regulators be to support the greening of the financial system? How could they go further?

We have referred to how government and regulators can support the greening of the financial system in our earlier answers.

The key actions they could take is by ensuring there are clear frameworks in place to support green finance; ensuring there are clear metrics and measures that businesses are working towards; playing a convening role in supporting businesses, especially for SMEs, with skills development and signposting them to professionals who can help; incentivising green projects and investment decisions; and providing clear communication to businesses and consumers.

Q29) How can the UK government measure progress towards greening the financial system?

In question 5 we gave some ideas for metrics the government could use to help see what progress is being made. We would support using these and other metrics and ensuring they are regularly reviewed, and data is published so all can see and evaluate what progress is being made.

More consistent and clear data, as described above in earlier answers, will help inform what actions are working to help the UK with its climate and green goals and support more viable investment decisions. This data and metrics will also help drive value for money as it can be seen what policies are delivering the best results.

Q32) Is there a role for the UK government to support businesses (of different types and sizes) to make good quality Scope 3 emissions disclosures (including SMEs in the value chain of disclosure emissions)? If so, what should this be?

Some Scope 3 emissions are easy to report then others. Scope 3 Category One and Two - purchasing goods and services and capital goods – are much harder to report.

One way the government can help is by updating its spreadsheets - **Government Conversion Factors for Company Reporting**. This spreadsheet is used by businesses which report Scope 3 emissions. An example given by a member helping a client with reporting Scope 3 emissions was if they were to look up metals using the government spreadsheet there is only one category for metals, and it doesn't take account for different types of metals used and the different greenhouse gas effect for each different metal. The spreadsheet also does not take account of where, in this example, metals were or are produced as that would have an effect on the emissions produced. Therefore, the Scope 3 emissions being reported by companies does not give a true reflection of actual effect on the environment.

It was felt that the spreadsheet needs to be made more accurate, detailed and granular to really help business in reporting their true Scope 3 emissions. The members felt the Scope 1 and 2 data and information given by government is good and this needs to be replicated for Scope 3.

Some businesses, including many SMEs, will need support with disclosing Scope 3 emissions due to the lack of skills and experience internally. In an earlier answer we suggested how the government can help businesses address this knowledge and skills void. Action in this area will be needed to help businesses. Government can play a key convening role with regards to supporting businesses with training and signposting business to the right support.

Contact

For further information about CIMA and its submission, please contact Ross Archer, Director — Public Policy at ross.archer@aicpa-cima.com.