ESDN Workshop 2012

“Zest for Enlightenment”

Financial Markets, Institutions and Policies in the UK - a Sustainability Perspective

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Introduction

♦ Outline

➢ UK financial markets, institutions and policies
➢ Where finance meets sustainability
➢ What role for the regulator?

♦ About Z/Yen Group

➢ Commercial think-tank - finance, technology, systems, intelligence and sustainable development
➢ Long Finance initiative - “when would we know our financial system is working?”
   ❑ Confidence Accounting
Industry
- > 2 million people in financial and professional services
- GVA - £175,083 m

London but also
- Scotland - Edinburgh, Glasgow;
- England - Birmingham, Liverpool, Manchester, Leeds
- Wales - Cardiff
- Northern Ireland - Belfast
UK Financial Markets

♦ 2nd largest banking assets (2010)
♦ 38% of global FOREX (2012)
♦ 3rd global insurance market, 1st in Europe
♦ Leading role in fund management and derivatives trading
♦ London
  ➢ No 1 - Global Financial Centres Index
  ➢ Global equity trading centre - 18% of foreign listed companies are quoted in London (e.g. London Stock Exchange)
  ➢ Leading in issuance and trading of international bonds - valued at £2.3 trillion at the end of 2011, 13% of global total
  ➢ Leading centre for commodities trading e.g. sugar
Leading Global Financial Centres

Chart 2 | Top four centres GFCl ratings over time

Source - GFCl 12, 2012
UK Finance Institutions

Responsibility for financial stability divided between

- Bank of England (BoE)
  - Central bank
  - Ensure monetary stability
  - Contribute to financial stability

- Financial Services Authority (FSA)
  - Regulate markets, exchanges and FS firms
  - Set standards

- HM Treasury (HMT)
  - UK Economics and Finance Treasury
Learning from the Crises

Adapted from The Road to Long Finance, 2009
UK Financial Services Bill

♦ To strengthen financial regulatory structure in the UK - in practice:

➢ Macro-prudential responsibility for oversight of the financial system to the Bank of England

➢ FSA ceases to exist – instead
  - Financial Policy Committee (BoE) – monitor and respond to systemic risks
  - Prudential Regulation Authority (BoE) – regulate
  - Financial Conduct Authority (independent) – supervise firms, regulate business conduct

➢ Towards implementation
  - Introduced to Parliament in January 2012
  - Ongoing parliamentary review (HC, HL)
  - New system expected to be operational in 2013
UK Sustainable Development Agenda

✧ Ambitious targets – Climate Change Act 2008
  ➢ At least 34% reduction in GHG emissions by 2020 compared to 1990 levels
  ➢ At least 80% reduction in GHG emissions by 2050 compared to 1990 levels

✧ Building a low-carbon economy

✧ Committee on Climate Change’s 2012 annual progress report
  ➢ Emissions fell by 7% in 2011
  ➢ Only 0.8% attributable to proactive carbon lowering measures and policies
The London Accord

Making the case for investment in climate change through shared research and better policies.

2005
Concept

2006
Recruitment

2007
Report Launch

2008
Policy impact

2009
Index-linked carbon bonds

2008
ESG growth

2007 report

2012
330 reports
Where Finance meets Sustainability

♦ Leading centre for carbon markets
♦ Trading of CDM credits
♦ Trading of futures and options on EU ETS
  ➢ e.g. European Climate Exchange
♦ Private equity finance for renewable energy
  ➢ 115 cleantech companies registered on London Stock Exchange
♦ Recent developments
  ➢ Green Investment Bank
  ➢ Mandatory disclosure of emissions for companies listed on the London Stock Exchange
What Role for the Regulator?

✧ Always there… the political risk
  ➢ Feed-in-Tariff
  ➢ Green Investment Bank
    ☐ Delivery
    ☐ Scale

✧ Why not have index-linked carbon bonds?
  ➢ Linking bonds issuance and government performance against its own targets
Thank you!

♦ For more information

➢ Long Finance - www.longfinance.net
➢ London Accord - www.london-accord.co.uk
➢ Z/Yen research - http://www.zyen.com/knowledge.html