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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



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UK Financial Industry & Markets

◆ 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



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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

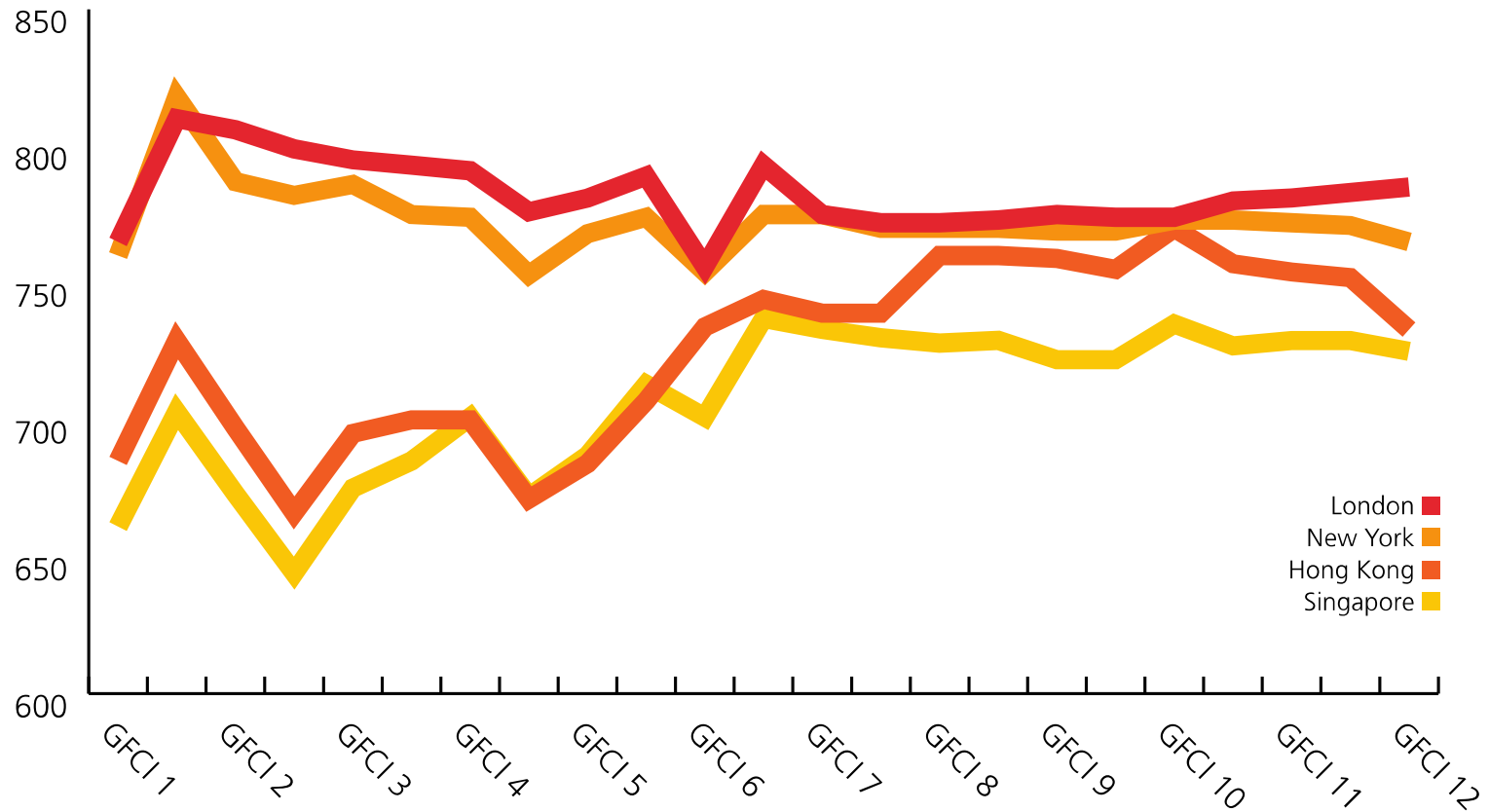


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Leading Global Financial Centres



Chart 2 | Top four centres GFCI ratings over time



Source - GFCI 12, 2012



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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)

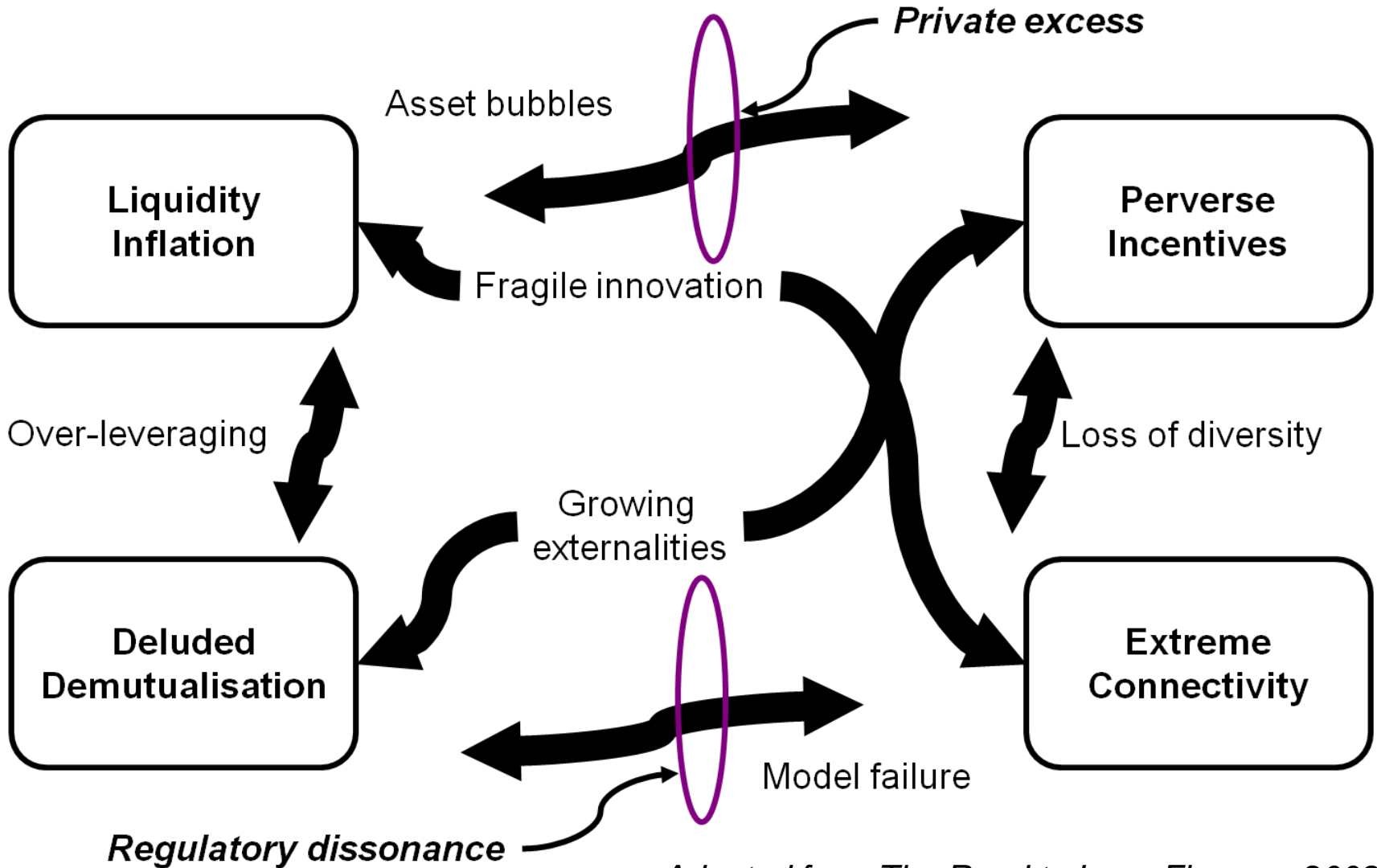
- UK Economics and Finance Treasury





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Learning from the Crises



Adapted from The Road to Long Finance, 2009



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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



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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



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The London Accord



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



2012
330 reports

2008
ESG growth

2007 report

2006
Recruitment



2009
Index-linked
carbon bonds

2008
Policy impact

2007
Report Launch

2005
Concept



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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



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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



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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>