

July 2022

**Department for Business, Energy
& Industrial Strategy
1 Victoria Street
London
SW1H 0ET**

RE: Update to Green Finance Strategy – Call for Evidence

BlackRock¹ is pleased to have the opportunity to respond to HM Government's call for evidence on the Update to Green Finance Strategy.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates resilient capital markets while preserving consumer choice and assessing benefits versus implementation costs.

As an investment manager, we connect the capital of diverse individuals and institutions to investments in companies, projects and governments. This helps fuel growth, jobs and innovation, to the benefit of society as a whole. Our clients in the UK include people from all walks of life invested in pension plans, as well as financial institutions, individual savers, UK companies, and the Government.

We welcome the opportunity to comment on the issues raised by this call for evidence and will continue to contribute to the thinking of the Government on this and other topics.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive summary

BlackRock welcomes the opportunity to respond to the Call for Evidence on the Update to Green Finance Strategy and the UK's continued commitment to the development of green finance. As an investment manager, we help millions of people invest to build savings that serve them throughout their lives. We empower our clients make better decisions and advocate for a more resilient financial system.

Since its publication, significant progress has been made towards the objectives of the first *Green Finance Strategy*. It is now crucial that momentum is maintained and that the Updated Green Finance Strategy outlines clear steps and a timeline to achieve further progress.

To date, we would note that much of the attention has focused on the Strategy's first objective of "greening finance". In our view, there is now the opportunity for the Updated Green Finance Strategy to put more focus on the "financing green" objective.

More specifically, there have been efforts to build a framework that promotes transparency and helps markets better identify and price risk, while supporting investors making capital allocation and tactical investment decisions. However, in our role as a fiduciary, we see increased client demand to allocate capital toward activities that support the transition, providing an opportunity for the UK to support our clients and facilitate more of this type of investment.

Capturing the opportunity

The characteristics for a leading global centre for green finance are largely the same as those of a leading global centre for traditional finance, indeed in our view there is little difference between finance and green finance.

The characteristics include (but are not limited to):

- Having the institutions present locally, with the right scale, to be able to handle large, complex international finance flows.
- Having a strong, coherent and supportive regulatory environment throughout the investment chain supporting innovation and investor confidence.
- Having access to existing talent, and the ability to retain and attract talent.
- Having full financial value chains locally allowing market participants from different market areas to work with each other easily.
- Existing in a time zone that is conducive to performing business throughout the world.

It is important that on top of this, the market should have legislative commitment to green finance flows and credible green investment projects available at the national level.

Furthermore, green finance is still relatively new and requires collaboration among a broad range of public and private stakeholders, including government, the financial sector, the real economy, academia and thinktanks. This is crucial to support the development of expertise and capabilities in the marketplace on green finance and the transition to net zero, as well as to facilitate the emergence and adoption of common frameworks and standards.

The UK has long been a major centre for international finance and, in our view, this increases the likelihood that the UK should be able to attract green finance flows.

Moreover, the UK's support for green policies and its leading role at global level to support the transition to net zero makes it a credible centre for green finance.

UK investors who are represented by UK based asset management firms are particularly well placed to take advantage of green finance flows. The UK market for green and sustainable financial products is rapidly expanding based on consumer preference, and many institutional asset owners, including many of our clients, are making net-zero commitments.

Financing the UK's energy security, climate and environmental objectives

Since the launch of the 2019 Green Finance Strategy, the UK has set clear, defined targets for its energy security and supply requirements; and its climate, environment and net zero objectives. This is a step change from the status quo: in its 2019 [report on Strategic Investment and Public Confidence](#), the UK National Infrastructure Commission noted that while the UK's regulatory model has successfully generated investment in energy and other infrastructure, it did not have the capacity to provide 'strategic direction' for investment in critical issues such as the transition to net zero.²

Since then, between the *Prime Minister's ten-point plan for a green industrial revolution* published in 2020, the *2021 Net Zero Strategy*, and the *2022 Energy Security Strategy*, the UK has set several clearly defined targets for energy generation from different sources, and targets for initiatives to slow the pace of climate change. There are now, for example, clear targets to create 24GW of nuclear power generation by 2050, 50GW of offshore wind by 2030, and 10GW of low-carbon hydrogen production capacity by 2030. Similarly, the UK now has clear targets for Carbon Capture Use and Storage (CCUS) capacity by 2030 and 2050; and targets for Greenhouse Gas removal by 2030.

Private capital markets play a pivotal role in the energy transition, as the world passes through shades of brown to reach shades of green. We believe the intersection of infrastructure and sustainability represents one of the biggest opportunities in alternative investment for our clients in the years to come, and as a fiduciary, it's our job to connect the two.

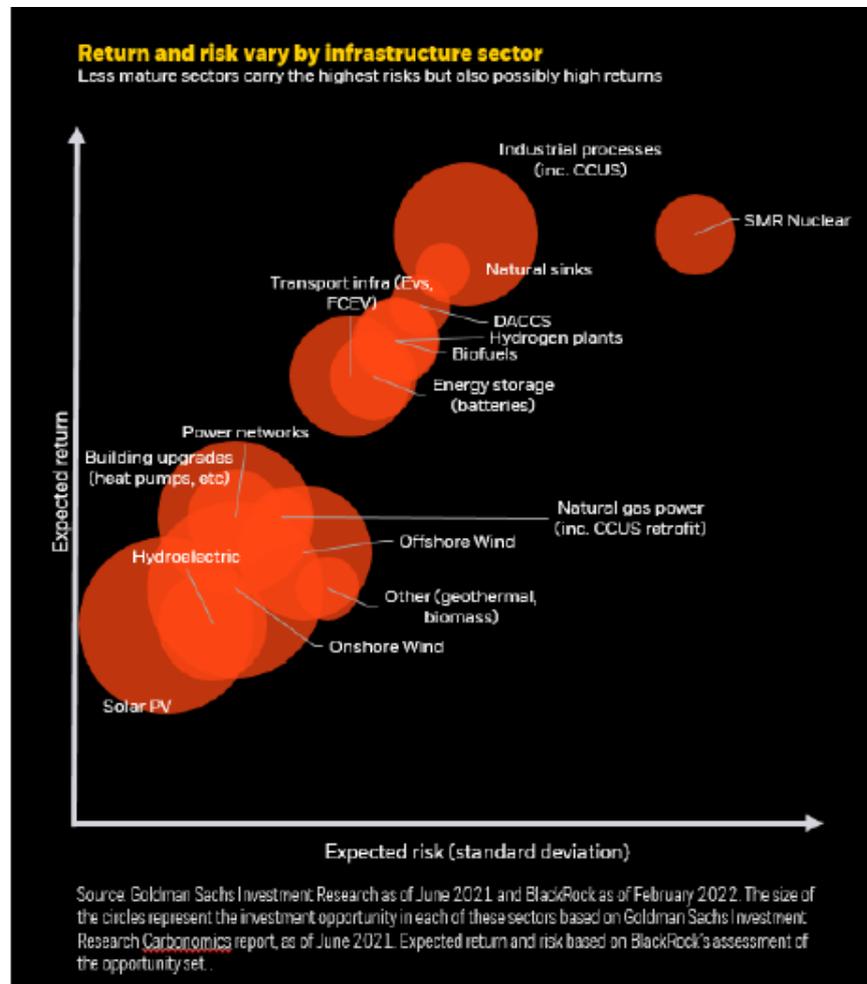
As part of this, continued investment in fossil fuel and energy-intensive sectors will be needed to enable the transition, and crucially to ensure it happens in a way that is just and fair. For example, to ensure continuity of affordable energy supplies during the transition, traditional fossil fuels like natural gas will play an important role both for power generation and heating in certain regions, as well as to produce hydrogen.

Based on a currently lower cost of CO₂ abatement, wind and solar power, alongside natural gas, have seen significant capital flows in recent years. Capital flows into new sectors (such as tidal, advanced biofuels, hydrogen, energy storage) are rising, but the opportunity is smaller, for now. The cost maturity of new sectors is influenced by several factors such as technological maturity, prevailing policy and specific regulations. Investors view these conditions as essential elements of market structure. Running through all these is the concept of revenue predictability - how revenue models are underwritten - which ultimately delivers the needed certainty for investment.

² See National Infrastructure Commission, Strategic Investment and Public Confidence p. 7

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Indeed, the risk profile and potential returns for the types of infrastructure needed to meet the UK's targets vary significantly. More mature and tested sectors such as wind and solar present less risk; while critical emerging sectors such as hydrogen, energy storage, and advanced biofuels are less mature and therefore higher risk (see chart below)³.



For government, therefore, there are several crucial considerations for attracting private capital.

- First, whether there is an adequate supply of capital from investors whose time horizon and risk profile match that of the relevant projects.
- Second, whether the design and technology underpinning the infrastructure is proven, in development, or early-stage.
- Third, whether the business model of a given project or enterprise is proven.
- Relatedly, fourth, the attractiveness of its risk-return profile to different types of investors – influenced significantly by the predictability of government regulation or support. Regulation and taxation that is simple, predictable, and stable will improve the attractiveness of many of the projects in question.
- Finally, and critically, how specific infrastructure needs, and demand for infrastructure finance, are decided on and communicated to prospective investors – i.e. via a planned pipeline of projects that require delivery to meet government objectives.

³ The chart on page 4 is an attempt to show relative size and risk maturity of some subsectors through an infrastructure investor lens and was substantially captured through in-house interviews with our team.

The UK's National Infrastructure Commission has commended the UK's regulatory model for infrastructure financing, noting that between 2018/19 and 2020/21 the vast majority of energy infrastructure was privately financed, with private financing also expected for over half of the overall infrastructure pipeline (see [here](#) and [here](#)). This suggests that the UK's approach to regulation is already relatively conducive to attracting and incentivising private finance.

Private sector investors have made a big contribution towards financing the expansion of the zero-carbon electricity generation sector. And, anecdotally, we see continued increasing interest from a broad range of end-investors to make allocations to private markets, suggesting there is a strong supply of capital to be leveraged for the UK's policy objectives.

This has been helped by a number of important steps taken by the UK to lower barriers for domestic investors wishing to increase their exposure to long-term assets such as infrastructure. For example, implementing the recommendations of the Productive Finance Working Group – including reforms to the charges cap for workplace pensions, and the launch of the Long-term Assets Fund structure – will over time allow DC pension schemes to access this type of investment opportunity.

However, as the UK's 2022 [National Infrastructure Review](#) noted, while the *ten-point plan*, *Net Zero Strategy*, and *Energy Security Strategy* have generated 'clear, long-term goals' for its infrastructure and energy generation requirements, it also warned of a "lack [of] detailed policy plans" and "major gaps" on implementation and how infrastructure should be financed.

Indeed, while the UK has a robust regulatory regime for infrastructure financing, the recent wave of targets and objective setting have expanded financing requirements, including for nascent markets and technologies. To continue to attract private capital, a stable regulatory and tax environment is critical for generating reliable estimates of investment returns, and thereby persuading end-investors to make long-term commitments. In the remainder of this section, we provide views on some of the areas for which the UK has set ambitious targets and in which BlackRock has experience of investing on behalf of our clients, noting where and how the UK can support further private investment.

Offshore wind:

The UK has stated aims to reach 50GW in offshore wind capacity by 2030. This would represent a [five-fold](#) increase in current installed capacity. Over recent years, UK renewable power capacity, including offshore wind, has expanded significantly. This is thanks, in part, to proven technologies and a proven business model underpinned by the stability of the UK's regulatory regime. In particular, the use of Contracts for Difference (CfDs) have been, and will continue to be, a critical part of the UK's success in attracting investment.

CfDs provide investors with symmetrical risk in a market where revenues might otherwise be volatile. The scope of CfD auctions is likely to need to be expanded over time, in line with the UK's ambition to oversee a five-fold increase in offshore wind capacity. The commitment to move CfD auctions to an annual basis will also help give investors' confidence.

Plans set out in the *Energy Security Strategy* to simplify the process for setting up offshore wind infrastructure will also be welcome to the relevant enterprises.

Onshore wind and solar power:

The economic structure of the onshore wind and solar sectors is comparable to that of offshore wind. Intermittency leads to a volatile generation process, and in turn volatile revenues. As with offshore wind, long-term contracts for the sale of power that provide greater confidence in revenue streams increases the attractiveness of new projects to investors. The UK's intention to include onshore wind and solar power in future CfD auction processes, and to review the frequency of those auctions, is appropriate.

However, as noted below, a constraining factor for onshore wind and solar generation is UK grid capacity, energy storage, and acquiring planning permission.

Hydrogen:

The UK now has ambitious targets for low carbon hydrogen production capacity to 10GW by 2030, twice the initial 5GW target. As noted above, this is a relatively new sector, and there are several challenges to tackle.

For example, demand for low-carbon hydrogen (blue or green) is uncertain, given it is currently more expensive than counterfactual fuels (natural gas in industry or heating, or liquid fuels in transport). Early projects will likely require revenue support and long-term hydrogen offtake arrangements (e.g. with a heavy industry user or energy supplier) to guarantee an appropriate return for investors and incentivize customer switch. Regulatory frameworks for large-scale production of hydrogen – including safety management regulations for stakeholders to safely build, maintain and operate facilities – will also be required. The UK's Hydrogen Investor Roadmap is a helpful starting point, and provides useful information on timings for future decisions, e.g. on the use of Hydrogen in HGVs. Ensuring these timelines are kept to will be important for investor confidence.

With this in mind, we welcome the Net Zero Hydrogen Fund to support projects during development, and the CfD schemes to provide revenue support during operations.

Case study: BlackRock investment in Kellas Midstream

Kellas has been a portfolio company of BlackRock since January 2020. Kellas owns and operates critical North Sea midstream infrastructure that transports 40% of the UK's domestic gas production.

Kellas is developing H2NorthEast, a £1 billion, 1GW Blue Hydrogen production facility on its existing site in Teesside. By building on existing Kellas infrastructure, H2NorthEast will deliver low-cost, low carbon hydrogen to local industrial customers in Teesside, which will reduce carbon emissions by 1.5 million tonnes per annum and ensure the longevity of Teesside as industrial hub.

H2NorthEast is a flagship initiative that is fully aligned with the UK's "10-Point Plan for a Green Industrial Revolution", Hydrogen Policy, Energy Security Policy and Levelling Up agenda.

H2NorthEast is currently being evaluated by BEIS under the Phase 2 of the CCUS cluster sequencing process.

Wider roll-out of hydrogen power will also need changes to infrastructure: for example, in order for hydrogen to be used in the residential sector, existing infrastructure might need to be retrofitted (e.g. pipes and household appliances). For transport, a nationwide network of refueling infrastructure is required to roll-out hydrogen transport technologies.

Finally, in the case of blue hydrogen, successful deployment can only happen if the various parts of the value chain (including CO₂ transport and storage) work together and risks allocated accordingly, which the government seems to be mindful of based on the various business models published; while green hydrogen will be successful only if renewable generation, storage and electrolysis are well integrated.

Finally, in addition to the sector-specific points raised above, there are three overarching issues that will facilitate further investment in decarbonising technologies. Government plays a critical role in each.

Grid connection and planning permission

Planning permission and grid connection for zero-carbon electricity generation assets can be a multi-year process. This is an important factor for many UK renewables projects being developed, affecting sectors including offshore wind, onshore wind, solar and battery storage assets. Moreover, in some areas, grid connection charges are very high, resulting in projects not being economically viable. Investments in grid infrastructure and shortened timelines for planning permission and grid connection is therefore needed to accelerate the net zero transition.

Grid stability and storage

Relatedly, significant investments in grid and storage sectors are required. Grid stability will be critical as the UK demand for electricity consumption increases at the same time as the proportion of electricity generation by renewables increases. Improving longer-term storage capacity will help overcome intermittency issues in many renewable energy sectors, thereby enhancing the economic structure and in turn the investment case. Battery storage assets are increasingly playing major roles in ensuring energy security and grid stability, but can also face planning permission issues.

Meanwhile, the launch of the National Grid's Stability Pathfinder process also saw increasing private capital entering into the grid stability market, in technologies such as synchronous compensators which help to address grid stability issues caused by the increasing penetration of renewable energy. However, contracted revenues available for these sectors are relatively short term compared to the expected asset lives. Improving revenue certainty in the long term would encourage further private investments into these markets, which are fundamental to facilitate the energy transition targets.

Infrastructure demand and pipeline

The interventions above are necessary pre-conditions to attracting private capital, but will be insufficient if there is no clear 'demand side' of projects requiring financing. Put differently, policies that focus on the supply-side – opening up sources of capital and regulatory regimes to encourage investment – are critical, but government targets for

infrastructure and energy generation capacity must be translated into project proposals. Specific infrastructure needs, and demand for finance, must be made clear to prospective investors for them to be able to provide the financing.

Financing transition activities

The UK's commitment to developing a green 'Taxonomy' could, in time, give investors greater clarity on sustainability credentials of different economic activities. To that end, it will be important to consider the lessons from the early days of implementation of the EU Taxonomy for sustainable activities, including data challenges and the scope of activities to be covered.

Furthermore, the Taxonomy, while a tool for defining the activities consistent with the 'end state' of a net-zero future, is not designed to provide the clarity of transition pathways and trajectories for key industries or the economy as a whole.

We believe that there is an important need for a transition framework that brings together the policy strands the UK is currently considering; a framework that is specifically aimed at helping investors manage transition risk and seize related opportunities, underpinned by the policy and regulatory certainty that initiatives like the *Green Finance Strategy* provide.

Governments also have an essential role to play in articulating a long-term strategy for reaching each country's net zero goals. The UK's plan to cease sales of all new petrol and diesel vehicles from 2030 is an example of a clear, long-term signal to businesses and investors. Articulating these strategies will in turn facilitate real economy transition plans, and finance associated with meeting them.

We welcome the UK's initiative to establish the Transition Plans Taskforce to create a consistent framework for private sector transition plans. Consistency with the international regulatory processes, including the International Sustainability Standards Board (ISSB), will be a key success criterion, to facilitate implementation and ensure usability.

Developing natural capital markets

Like climate change, natural capital presents both risks and opportunities for companies which investors cannot solve alone. We see operational, regulatory, and reputational risks as increasingly important and also opportunities—such as the challenge of producing more goods with fewer natural inputs like water, land, and raw materials using improved production practices in the future.

Companies depending on natural capital as inputs, such as forestry or agriculture, may have decreased output if the quality and availability of natural capital decreases. Alternatively, they may be faced with increased costs of production (e.g. water filtration, gathering more resources to achieve the same quality inputs) to achieve quality and yield that consumers are currently used to or expect, against the backdrop of a growing population.

As awareness grows of the importance of natural capital to companies' business models and ability to generate long-term durable financial returns, investee companies' strategies and plans for managing their impacts and dependencies on nature will be of greater interest to investors. As a result, we view the careful

management of natural capital as a core component of a resilient long-term corporate strategy for companies that rely on the benefits that nature provides

The Taskforce on Nature-related Financial Disclosures (TNFD), modeled after the Taskforce on Climate-related Financial Disclosures (TCFD), was established to factor nature into financial and business decisions. TNFD Framework version 1.0 was released in March 2022, with plans to finalize by late 2023, and a second iteration of the framework was released in June 2022. BlackRock is a member of the TNFD and supportive of the taskforce and its guidance for market participants on how to understand and respond to nature-related risks and opportunities.

However, at present, the metrics and framework created by TNFD are high level and still present challenges for issuers and investment teams to utilize. The measurement associated with biodiversity and natural capital is inherently challenging, for multiple reasons, including conceptual challenges, the wide array of different types of natural capital dependencies and impacts, and the spatial nature of natural capital.

Natural capital for different businesses can be a direct input to supply chains or operations; or create an impact or dependency for businesses. Currently, a bottom-up company-level analysis is required to get a meaningful estimate of the dependency and impact in natural capital - and requires dedicated metrics that may not scale across a portfolio. Information is often disaggregated and company-specific, depending on their reporting.

As such, standardization of metrics and disclosure practices for nature-related risk and opportunities, where material, would be a first step to support mobilization of private investment for natural capital.

Greening the Financial System

We have long called for a single, globally interoperable set of baseline sustainability reporting standards on which different jurisdictions can build. We believe this will help drive progress toward the convergence needed to improve the quality of information available to investors and other stakeholders, while reducing the reporting burden on companies.

We welcome the UK's support for international regulatory processes, including the establishment of international standards through the work of the ISSB. The government should build upon common baseline standards, ensuring compatibility between the UK and international standards.

To this end, BlackRock is supportive of UK plans to establish an integrated framework for Sustainability Disclosure Requirements (SDR), building upon the requirements for TCFD reporting.

Appropriately designed and sequenced SDRs will help to ensure that investors have the necessary data to allocate capital to support transition plans, and for their own disclosures and risk management. Improved quality and consistency of ESG data is also important in helping to improve the quality of ESG ratings.

As part of this work, we welcome efforts to create a product categorisation that is clear and simple to understand for investors. However, given the need for interoperability, and, in particular, if UK consumers are to retain access to a wide and cost-effective product range, we believe that compatibility with the EU's SFDR should be considered.

Moreover, we believe that funds with binding sustainability exclusions that are meaningful for the investment strategy should be included within the sustainable category. This would help to avoid the risk of missing elements of the market, such as screened or tilted products, that meet clients' preferences and require clear and accurate disclosure as to their ESG credentials.

We welcome the progress that the UK has made towards the objectives of the first Green Finance Strategy thus far and see leadership on sustainability reporting and disclosure standards as the key to supporting the greening of the financial system.

Leading internationally

As our Chairman and CEO, Larry Fink, wrote in his [2022 letter](#) to CEOs of companies our clients are invested in, the tectonic shift of capital toward sustainable investing is accelerating. The transition is happening, and companies and investors must choose an approach to manage this.

The transition will not happen overnight, and the world will need to pass through shades of brown to reach shades of green. An important component of this will be the creation of credible transition plans and sectoral decarbonization pathways. As a member of the Glasgow Financial Alliance for Net Zero, we are co-leading work on sectoral decarbonization pathways⁴. We are also involved in the UK Transition Plan Taskforce and, as aforementioned, welcome UK leadership on establishing this group.

However, while the financial sector has an important role to play in helping to manage the transition, it is crucial that every sector of the economy is given the tools needed to navigate this transition. After all, it is corporates themselves who have the most direct impact on their activities.

We would also stress that we need to be mindful of the economic, scientific, social and political realities of the energy transition. Governments and the private sector must work together to pursue a transition that is both fair and just – we cannot leave behind parts of society, or entire countries in developing markets, as we pursue the path to a low-carbon world.

Forests and land use

At BlackRock, we recognize that commodity-driven deforestation and other types of unsustainable land use play a significant role in accelerating climate change and biodiversity loss. Agriculture, forestry and other land uses are the second-largest source of global GHG emissions, behind only the emissions produced by the energy sector,⁵ while carbon storage, through carbon sinks, is one of the most critical ecosystem services forests provide.⁶

However, there needs to be a way of assessing the impact of investment on deforestation in a consistent and coherent way.

⁴ See <https://www.gfanzero.com/publications/> for five GFANZ publications on transition planning published in June 2022.

⁵ WWF, GTAP, and Natural Capital Project. "[Global Futures: Assessing the Global Economic Impacts of Environmental Change to Support Policy-Making.](#)" February 2020

⁶ A recent study found that doubling nature and water conservation efforts through avoided deforestation and natural forest regrowth by 2030 could reduce atmospheric CO₂ in a range equal to 4 to 12% of the annual CO₂ emissions reductions needed to limit global warming to less than 2°C. Simply put, the world will not reach the goals of the Paris Agreement, let alone the aspiration to reach net zero emissions by 2050, without curtailing deforestation and accelerating protection and restoration efforts

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We have joined the Lowering Emissions by Accelerating Forest Finance (LEAF) Coalition and, as aforementioned, have been actively involved in the TNFD. Beyond this, we are contributing to the Principles for Responsible Investment (PRI) Sustainable Commodities Working Group, Global Canopy Aligned Accountability project, and the World Economic Forum (WEF) Biodiversity Finance Working Group.

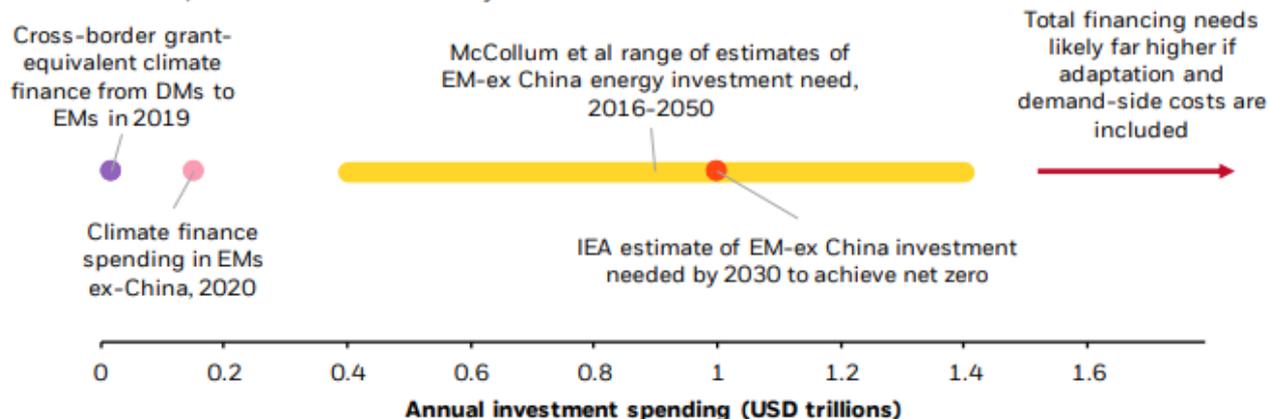
We welcome the UK's support for the TNFD process and believe this is an area, like TCFD, where the UK can show leadership by endorsing the outcomes of the process. We also support UK efforts to show leadership and ensure the success of the UN Biodiversity Conference.

Emerging and developing economies

Emerging markets account for an increasingly large share of global emissions – [now 34%, or 65% including China](#). The choices these nations make as they build out their infrastructure will shape climate risk for all. However, they are not able to meet their investment needs alone, and there is insufficient cross-border public and private finance to fill the gap.

Current financing falling far short

Estimates of EM capital needs vs. current reality



Sources: BlackRock Investment Institute, McCollum et al 2018, 'Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals', Nature; OECD [Climate Finance Provided and Mobilised by Developed Countries: Aggregate Trends Updated with 2019 Data](#), September 2021; IEA [Financing clean energy transitions in emerging and developing economies](#), June 2021.

Currently, the emerging market investment landscape is viewed as high risk, to the point that many private investors are unable to invest. These risks include political instability, legal enforcement, reputational concerns and macroeconomic management. As a result, the risk/reward balance is unfavorable for private investors, and many are deterred – or prohibited – from investing in emerging markets.

We believe the only way to overcome these obstacles to private capital flow, within the necessary timeframe, is for countries that can afford it to put up a greater supply of public budgetary resources to absorb the potential losses deterring private investors. This type of public finance has shown to be successful in attracting private capital because it provides investors with emerging market exposure at lower levels of risk. It also has the added benefit of allowing the taxpayer to enjoy the long-term returns associated with these investments.

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Budgetary resources have greatest power to scale up this de-risking by providing finance at a facility level, rather than on a project-by-project basis. This could happen in several ways, for example:

- Budgetary resources could be used as seed capital to set up a green investment bank in an emerging market economy. This would enable multiple projects to be funded in one move, rather than one by one. Since the green bank takes on the role of standardizing criteria for lending to investment projects, greater transparency will encourage greater private sector participation.
- A mechanism such as an auctioned carbon price floor which – backed by a letter of credit from a government or development finance institution (DFI), equivalent to a subsidy – can issue an investment instrument that is bankable. The fund that issues the instrument is, in effect, offering to act as a buyer of last resort. Capital is only called on if the carbon price drops below a pre-specified level, supporting decarbonization without investors taking on project completion risk.
- By subsidizing investment in projects that have significant benefits to society – such as national electricity grids – greater public funding can enable follow-on private investment in other areas such as green energy production. This could be achieved, for example, through a fund or green bank with a specific mandate to invest in sectors or projects that are viewed as important public goods.

We welcome the UK commitment to the \$100bn a year climate finance mobilization goal for developing economies. However, we estimate emerging markets will need at least \$1tn per year to achieve net-zero emissions by 2050.⁷ The currently unmet \$100bn target is therefore not sufficient, in our view. We see a need for \$100bn in the form of public budgetary resources (grant equivalent financing) alone, to in turn be leveraged up to the needed \$1tn per year of public and private capital.

Green bonds

BlackRock has been and continues to be an active participant and leader in the evolution of the green bond market, indeed we were one of the top five buyers of UK green gilt.

We have developed a proprietary green bond taxonomy that we use to define a BLK labelled green bond universe that includes green scoring (very light green to dark green scale).

Our process includes checking new issuers for alignment with the Green Bond Principles. We update our proprietary list of green bonds monthly, cross-checked against Bloomberg, the Climate Bonds Initiative and Environmental Finance databases, and annual verification that issuers are meeting their reporting obligations.

There have been occasions where bonds that are self-labeled green bonds or that are included on other green bond lists have not been included in the BlackRock tagging due to a lack of transparency on the intended proceeds or our lack of conviction that the projects financed met a defensible threshold of environmental benefit.

BlackRock has been on the Executive Committee of the Green Bond Principles since its founding in 2014. We help protect the integrity of and shape the development of the Green Bond market by clarifying the approach for issuance of a Green Bond (including

⁷ For further information on our views on financing the net-zero transition in emerging markets see [The Big Emerging Question](#), BlackRock Investment Institute, October 2021

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guidance on key components in launching a green bond, ensuring availability of necessary information in evaluating environmental impacts, assist with standardization of disclosure). In addition, the firm is a member of the Climate Bonds Initiative.

In terms of general principles for green bond issuances that the UK can support, for BlackRock what matters are what projects are financed by the bonds and how those projects contribute to meeting environmental goals.

Ideally, 100% of use of proceeds are applied towards green projects, but the minimum threshold we will consider is 90% towards green funding. In cases where only 90% of the funding is green, we will evaluate the issuance's 'greenness' on a case-by-case basis depending on the application of funding for the remainder 10%.

As investors, we want to be sure that proceeds post-issuance are in fact deployed towards green projects in a reasonable timeline. Best practices for lookback for refinancing and full allocation of proceeds is 24 months prior to issuance for lookback, and 24 months to full allocations post issuance. It is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced eligible Green Projects.

We would be happy to supply further information on our methodology around green bonds or meet with officials to discuss best practice in this area.

Conclusion

The UK has made significant progress since the publication of its first *Green Finance Strategy*, it should now look to build on this momentum and outline clear steps and a timeline to achieve further progress in its Updated Strategy.