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Treasury Committee

Net Zero and the Future of Green Finance: Responses to the Committee's Thirteenth Report of Session 2019-21

First Special Report of Session 2021–22

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

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Publication

Committee reports are published on the Committee's website at www.parliament.uk/treascom/ and in print by Order of the House.

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The current staff of the Committee are Jack Dent (Second Clerk), Rachel Edwards (on secondment from the Bank of England), Kenneth Fox (Clerk), Dan Lee (Senior Economist), Adam McGee (Senior Media and Communications Officer), Aruni Muthumala (Senior Economist), Moyo Oyelade (on secondment from the Bank of England), Tony Verran (on secondment from HM Revenue & Customs), Adam Wales (Chief Policy Adviser), Maciej Wenerski (Committee Operations Manager), Jesse Williams (Committee Operations Officer), and Marcus Wilton (Senior Economist).

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Responses to the Committee's Report

1. The Committee published its Thirteenth Report of Session 2019–21, Net Zero and the Future of Green Finance (HC 147), on 22 April 2021. The Committee has received responses from:

- The Financial Conduct Authority, which replied on 14 June;
- The Bank of England, which replied on 25 June; and
- HM Treasury, which replied on 8 July.

The Committee had agreed with the Bank and the Treasury a short extension to the standard two-month deadline for responses to committee reports.

2. The responses are appended to this Report. The Committee's recommendations are in bold italics and the responses are in plain type.

Appendix 1: Response from the Financial Conduct Authority

Letter to the Chair from the Executive Director, Consumers and Competition, Financial Conduct Authority

I am writing in response to the Committee's report, 'Net Zero and the Future of Finance', published 22 April. The FCA is delighted to have had the opportunity to engage with this inquiry, including the evidence I provided to the Committee on 30 September 2020.

The report makes a number of recommendations, touching on the FCA's work and remit. I welcome the recommendations and have set out our thoughts on some of these below.

Since I gave evidence to the inquiry, the FCA has received its latest remit letter from the Chancellor. This clarifies that the FCA "should have regard to the government's commitment to achieve a net-zero economy by 2050… when considering how to advance its objectives and discharge its functions." This is an important backdrop to the Committee's recommendations and recognises the important role the FCA plays in achieving the Government's targets. The report calls for us to incorporate our revised remits on climate change, quickly.

The impact of climate change, and the wider Environmental, Social and Governance (ESG) agenda, has been a key focus for the FCA. This was one of our key cross-cutting areas of focus in our most recent business plan.

In October 2019, we set our strategy in relation to climate change and green finance. Our aim (set out in FS 19/6[1]) has been to ensure our "regulatory approach creates an environment where market participants can adequately manage the risks from moving to a low carbon economy and are able to capture opportunities to benefit consumers. More broadly, we want to help … accelerate the transition to a net-zero emissions economy." We have been pursuing this strategy under three themes:

- Transparency. Promoting good disclosures along the investment chain
- Trust. Ensuring that the market delivers sustainable finance instruments and products that genuinely meet investors' sustainability preferences
- Tools. Government, regulators and industry all working collaboratively to share experience, develop guidance and tools and provide mutual support as we confront the challenges of climate change

We recognise that to meet both the Chancellor's expectations and the TSC's recommendations, we will need to build on, and evolve, our current strategy. We will need to integrate more fully consideration of the climate transition into the FCA's day to day policy, competition, supervision and enforcement frameworks. We are keen to continue working with the Committee as we do this.

We will also need to deepen our work on ESG issues, beyond climate change. For instance, we will need to consider more fully the role of finance in dealing with other environmental

1 FS19/6: Climate Change and Green Finance; summary of responses and next steps (fca.org.uk)

issues, such as biodiversity (as set out in the Dasgupta Review, published in February this year), as well as social issues, such as racial equality, the living wage and diversity and inclusion.

In recognition of the importance of this work, we recently appointed Sacha Sadan to be the FCA's first ESG Director. Sacha's remit will be to oversee the integration of climate change and sustainability across the organisation and to evolve our strategy to meet the challenges and opportunities presented by the move to a net zero emissions economy. Sacha will develop and advocate for our approach to sustainable finance domestically and internationally, including with Parliament.

Our remit to tackle 'greenwashing' and labelling of financial products

The Treasury must work with the FCA to ensure that the regulator has the appropriate remit, powers and priorities, and uses its powers, to prevent 'greenwashing' of financial products available to consumers.

The Treasury and the Financial Conduct Authority should consult on the merits of making climate or carbon labels for consumer financial products mandatory, as a means to encourage innovation.

The FCA should consult on how best to make such labels readily and widely understood.

Our rules already set out that financial promotions and communications with customers should be clear, fair and not misleading. This includes non-financial objectives that a product is seeking to achieve–such as reducing the fund's carbon footprint. Furthermore, if a fund makes an ESG-related claim, non-Handbook guidance finalised in February 2019 sets out that it must state so clearly in its Key Investor Information Document, and that it must be transparent about how it will achieve its objectives. It should also be clear about how it will measure whether these are being met. We are committed to ensuring firms understand their responsibilities and prepared to act where we have concerns.

An important defence against potential greenwashing is to tackle misleading claims as applications for new products are submitted to us for authorisation. The FCA continues to challenge firms on their funds' strategies and documentation as they are submitted to us for authorisation. The market for ESG and sustainable investment products is currently the fastest growing segment of the investment market. Reflecting this, we have seen a significant increase in applications for authorisation of funds with an ESG focus. As applications are received, we review the strategy, investor documentation and model portfolios of applications to ensure that they meet our expectations. We require changes to the way information is presented to consumers if we are concerned that they are not clear, or if we see a risk that consumers may be misled.

Consistent with the evidence set out in the Committee's report, the FCA has heard concerns that consumers may find it challenging to validate firms' claims about the sustainability characteristics of the products they bring to the market. As a result, they may find it difficult to assess whether the products they are offered meet their needs and preferences.

If this market is to continue to grow and develop, consumers must be able to trust the sustainable finance products they are offered and rely on them to perform as they expect.

We therefore agree that we may need to do more in this area. We share the Committee's view that the FCA should work together with the Treasury to ensure that there is a regulatory framework in place to achieve this.

In such a fast-moving space, it will be important to strike the right balance between principles and prescription. To codify too much into the regulatory framework could stifle innovation and hard wire the current state of knowledge and understanding. So, there is merit in considering how much can be achieved through a principles-based and supervision-led regulatory approach.

We have been socialising with industry a set of draft guiding principles on the design, delivery and disclosure of ESG and sustainable investment products. These are intended to help firms interpret existing rules, including those mentioned above. The principles have been informed by consumer behavioural research, due for publication this summer, commissioned to help us better understand better how consumers choose between products and what types of disclosures influence their decisions. Having gathered views from a range of stakeholders, via roundtables and other engagements, we are now finalising these principles and expect to publish them in the coming weeks.

We see the draft principles as being complementary to other measures that the Treasury may take to meet the Government's stated commitment in the 2019 Green Finance Strategy to "at least match the ambition of the … objectives including in the EU's Sustainable Finance Action Plan". They also work coherently with our upcoming proposals to implement disclosure rules for asset managers, life insurers and FCA-regulated pension schemes, aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). These proposals, to be published later in June, are part of the wider Government Roadmap towards mandatory TCFD-aligned disclosure obligations across the UK economy over the coming years. Our proposals will be for client and consumer-facing disclosures, including at both the entity and the product or portfolio level. As part of this, firms will be required to disclose a baseline core set of metrics, including metrics related to the carbon footprint of the product or portfolio.

Such information could be used as a basis for consumer-friendly product labels. We agree that climate or carbon labels can help consumers navigate investment products, both in terms of the strategies they employ and the profile of their holdings. One of the findings of our consumer behavioural research is that clear, objective fund labels are an important driver of consumer choice. We are engaging closely with relevant industry associations and the British Standards Institution on the work they have underway in this area.

Also important in this respect, is corporate disclosure. High quality, accurate, consistent and comparable corporate reporting on climate-related and other sustainability matters is crucial to asset managers' and other investors' making informed investment decisions and designing products that reliably meet consumers' sustainability preferences. Corporate disclosures have been a priority area of focus for the FCA in the past two years. We implemented a TCFD-aligned disclosure rule for our most prominent listed companies from the start of 2021, and will be consulting by the end of June on application of this rule to a wider scope of listed issuers.

In parallel, we have been influencing international efforts to promote international consistent adoption of TCFD and to build on the TCFD's recommendations to develop a common international baseline of corporate reporting standards. We co-chair a workstream on climate-related disclosures at the Financial Stability Board, and also co-chair a workstream on sustainability reporting under the International Organization of Securities Commissions (IOSCO) Sustainable Finance Taskforce. With IOSCO, we are working closely with the IFRS Foundation to establish an International Sustainability Standards Board to sit alongside the International Accounting Standards Board. There was good support for the IFRS Foundation's work in the recent G7 Finance Ministers and Central Bank Governors Communiqué.

As the Committee will be aware, we already report yearly on areas of concern around our perimeter in order to boost transparency. We do alert the Government to concerns over our powers should we need Parliament to consider extending them, as we have done with online harms. The Treasury's Future Regulatory Framework Review is also an opportunity for us to assess the regulatory framework in the round, including those areas of retained EU law relevant to our ESG agenda. As this work takes shape following Government's consultation and Parliamentary debate, I will ensure that any gaps in our ability to tackle greenwashing in line with our objectives are raised with the Treasury and will keep the Committee updated on this particular point in light of its concerns.

Indices

The Treasury and regulators should therefore ensure that all indices (whether conventional or climate friendly) clearly set out the overall carbon footprint of the assets included within indices.

The Treasury and the FCA should review the provisions in the legislative and regulatory framework and ensure that the labels and descriptions of indices accurately reflect their content, in line with consumer expectations.

The UK Benchmarks Regulation (BMR) contains transparency provisions to ensure users can make informed choices about the benchmarks they consider appropriate for use. Amendments were made to these provisions to introduce specific sustainability-related disclosures for benchmarks in 2019, and form part of retained UK-law. These could provide a helpful starting point in relation to this the recommendation.

Our policy and supervision teams will carefully consider this recommendation, and whether and how we might take it forward, as part of our role setting UK benchmark regulations. As mentioned above, the Government's Future Regulatory Framework Review presents an opportunity to review the whole framework, and we will bear this recommendation in mind when working through this with the Treasury.

Long Term Asset Fund

There should be clarity about who will have access to the LTAF. The Chancellor and the financial regulators should set out the timeframe for the launch of the announced 'long term asset fund' to allow pension savers to invest in long-term projects. We would expect that such an LTAF would be focused on providing net-zero compliant products.

The FCA is currently consulting on proposals for a Long Term Asset Fund (LTAF). This is a newly proposed authorised fund structure, with the aim of facilitating greater investment into productive finance assets. Productive finance includes venture capital, private equity, private debt, real estate and infrastructure, including sustainable and green projects. An ability to invest in illiquid assets, through appropriately designed and managed investment vehicles, is also important to supporting economic growth and the transition to a low carbon economy.

The FCA is progressing this work as part of a wider Productive Finance Working Group, convened by the FCA, Treasury and the Bank of England. The Group was established to identify solutions to previously identified barriers to investment in productive finance assets.

Initially we propose to restrict distribution of the LTAF to professional investors and sophisticated retail investors. Such investors can decide whether an investment proposition is right for them or take advice on it. We ask discussion questions within our consultation about whether, and how, we can safely permit future wider retail access to such funds.

Our proposals are designed to be proportionate, and aim to increase investor protection and promote effective competition. Our proposals are of particular relevance to:

- promoting competition between business models of entities that invest in long term, illiquid assets through authorised fund structures;
- growth and climate change, as they will contribute to sustainable economic growth and encourage investment into the low carbon economy;
- better outcomes for consumers, as they will enable investors to more easily access investments in assets with the potential to provide higher returns; and
- trade, as the proposals will provide greater opportunity for investment in long term, productive finance assets so that more investment funding is likely to flow into long term UK projects.

Innovation

The FCA should seriously consider undertaking further 'green fintech challenges' to encourage innovation. The regulator should also set out how it will tackle remaining regulatory barriers which discourage innovative 'green' financial products from coming to market. The Government and the regulators should work more closely with the Green Finance Institute to bring innovative ideas which will benefit consumers to the market.

We know from experience that technology is a powerful tool in bringing about change and overcoming industry-wide challenges. Consistent with the Committee's recommendation, the FCA's Innovation Division is considering how our regulatory innovation tools that support new ideas and approaches, such as TechSprints[2], Digital Sandbox[3], and Regulatory Sandbox[4] initiatives, can be used to advance innovation in sustainable finance.

As part of this, the FCA is working on several initiatives. In conjunction with the City of London Corporation, the FCA will be running a second cohort of the Digital Sandbox focussing on sustainability and climate change. We will be holding a series of workshops

2 TechSprints, Financial Conduct Authority, published on 11/09/2017
3 The Digital Sandbox Pilot, Financial Conduct Authority, published on 04/05/2020
4 Regulatory Sandbox, Financial Conduct Authority, published on 11/05/2015

with industry and engaging relevant stakeholders (including the Green Finance Institute) to determine the areas most suited to new thinking and technological-led solutions within these themes. We are also currently exploring how we can use our TechSprint approach to bring together industry, regulators, government and academia to solve complex problems within the sustainability space, for example, supporting financial regulators to monitor sustainability-related activities and adopting new ways of working.

Lastly, in line with the Committee's recommendation, we are scoping the next iteration of our 2019 Green FinTech Challenge[5] to enable more innovator firms developing solutions to support the UK's transition to a greener economy to get to market through FCA firm support services.

Taxonomy

The Treasury and regulators should work at speed to ensure that there is a clear timetable and legislative pathway to deliver a UK taxonomy ahead of COP26 in November 2021. The UK can utilise the EU's taxonomy but can exceed it when it will assist the UK's goals. The UK should seize the opportunity presented by COP26 to use its own work on a taxonomy to push for greater international convergence.

As noted, the FCA is providing technical advice to the Government in its work to "match the ambitions" of the EU Sustainable Finance Action Plan.

We welcome the Government's plans for a UK Green Taxonomy, including the decision to take the EU's Taxonomy as a starting point for the UK version. We are engaging closely on this with the Treasury, other regulators and Government department on details of the design of the framework for the UK.

A common language and understanding around what constitute environmentally sustainable activities is essential if the market is to continue to grow and develop. The UK's Green Taxonomy is therefore a real opportunity to demonstrate that the UK takes sustainable finance seriously and that we are ambitious. We are committed to working with others to drive this agenda forward.

As the Committee will be aware, the UK has also joined the European Commission-convened International Platform on Sustainable Finance (IPSF). The Platform aims to build international consensus around a Common Ground Taxonomy and help create further momentum behind a market-based transition to net-zero. This engagement will be critical to building on the work we have done domestically to ensure that the global response to the threat of climate change is coordinated and successful.

The FCA looks forward to continuing to work with the Committee as we continue to adapt our regulatory framework to meet the challenge of climate change and the transition to a net zero emissions economy.

Sheldon Mills, Executive Director, Consumers and Competition, 14 June 2021

5 Green Fin Tech Challenge, Financial Conduct Authority, published on 19/10/2018

Appendix 2: Response from the Bank of England

Letter from the Governor of the Bank of England to the Chair of the Committee

I am writing in response to the Treasury Select Committee's (TSC) 'Net Zero and the Future of Green Finance' report published 22 April 2021. The Bank of England ('Bank') has been grateful for the opportunity to participate in the Committee's inquiry when it gave evidence on 30 September 2020.[6]

The risks from climate change and the transition to a net-zero economy are key priorities for the Bank. Earlier this month I set out our role on these issues as a central bank,[7] the progress we have made in our work to date and next steps.[8] The Bank continues to engage actively on these topics, both in its own capacity and through working with other central banks and supervisors around the world. In the past few weeks alone we have published our second annual climate-related financial disclosure report,[9] launched our Climate Biennial Exploratory Scenario (CBES) exercise to assess the resiliency of the financial system to different climate scenarios,[10] and became the first central bank to publish a discussion paper setting out options for greening a monetary policy portfolio.[11]

The Committee's report makes a number of recommendations to the Bank and observations about its work on climate change. We welcome these and I have set out more detailed views on the points raised below.

Corporate Bond Purchase Scheme

We note the new remit provided to the Monetary Policy Committee, which will allow it to rebalance its Corporate Bond Purchase Scheme to take account of the climate impact of the bonds it holds. We will continue to scrutinise this process and will examine how any changes are enacted, and how those changes impact on the other policy objectives and the independence of the Monetary Policy Committee."

At my TSC appointment hearing on 4 March 2020, I outlined the Bank's intention to assess ways that our Corporate Bond Purchase Scheme (CBPS) could be adjusted to take the climate impact of corporate bond issuers into account whilst still meeting our monetary policy objectives. Following the update to the Monetary Policy Committee's (MPC) remit on 3 March 2021, we published a discussion paper with options for 'greening' the CBPS. In line with that remit, the framework we outlined focusses on creating incentives for issuers to take actions consistent with an economy wide transition to net-zero emissions. Comprehensively adjusting a monetary policy portfolio to take account of climate considerations is new territory for a central bank. We are therefore seeking feedback on the

6 Sarah Breeden provided oral evidence during the Decarbonisation and Green Finance inquiry Treasury Select Committee meeting on 30 September 2020
7 'Tackling climate for real: the role of central banks', Andrew Bailey, Reuters Events Responsible Business 2021, 1 June 2021
8 'Tackling climate for real: progress and next steps', Andrew Bailey, Green Swan Global Conference, 3 June 2021
9 The Bank of England's climate-related financial disclosure report 2020/21
10 Key elements of the 2021 Climate Biennial Exploratory Scenario
11 Options for greening the Bank of England's Corporate Bond Purchase Scheme – Discussion Paper

themes and questions posed in this paper from the widest possible range of stakeholders, both within and outside the financial sector. This will help to inform our final, calibrated approach, which we intend to implement in Q4 2021.

Long Term Asset Fund (LTAF)

We note the debate at the Productive Finance Working Group Steering Committee on retail access to the 'long term asset fund' (LTAF). There should be clarity about who will have access to the LTAF. The Chancellor and the financial regulators should set out the timeframe for the launch of the announced 'long term asset fund' to allow pension savers to invest in long-term projects. We would expect that such an LTAF would be focused on providing a net-zero compliant product.

The industry-led Productive Finance Working Group, convened by the Bank, HM Treasury and the Financial Conduct Authority, has been developing practical solutions to the barriers to investment in long-term less liquid assets that expand productive capacity, further sustainable growth, and can make an important contribution to the real economy. The blueprint for a Long Term Asset Fund (LTAF) has been designed to support investment in a broad range of such assets.

We expect investments that support the transition to a net-zero economy, such as investment in renewable energy infrastructure and green technologies, will be among the beneficiaries of the LTAF. The FCA is currently consulting on proposals for the LTAF.

Prudential Regulation Authority (PRA) remit

The Prudential Regulation Authority and Financial Conduct Authority should move quickly to incorporate their revised remits to include climate change. We will continue to monitor their progress and ongoing approach to the risks arising from climate change.

The Chancellor's recommendations letter to the Prudential Regulation Committee (PRC) was updated in March 2021 to include the Government's revised economic strategy and notes that the PRC should 'have regard to the Government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions'. Similar wording is used in the Financial Services Act 2021 with respect to the PRA's rulemaking powers when implementing Basel standards and subsequent Capital Requirements Regulation (CRR) rules.

We welcome these developments. The PRA has for some time recognised the financial risks posed by climate change and the transition to a net-zero economy to the safety and soundness of the firms it regulates. The PRA published a supervisory statement on enhancing banks and insurers' approaches to managing the financial risks from climate change in April 2019 (SS3/19). This was followed by guidance and feedback on industry-wide progress through a Dear CEO letter in July 2020. Firms must have fully embedded these supervisory expectations by the end of 2021. The PRA will review the progress firms have made against the expectations and consider at that stage what additional actions are appropriate within the PRA's objectives, including having regard to the target for a transition to net zero emissions by 2050. Looking ahead, the PRA will ensure that these factors continue to be considered when exercising its functions.

The PRA's climate-related work forms a key part of the Bank's wider climate strategy for its operations and policy functions, as set out in our recent climate-related financial disclosure report. That strategy also takes account of the changes in the recent remit and recommendations letters to the Financial Policy Committee and the Monetary Policy Committee.

Capital requirements

We have heard differing evidence on whether there should be amendments to the capital regimes to promote net zero. In light of its new remit letter, the Bank of England must now explain its thinking, as to what measures it might consider appropriate for the capital regime to better accommodate the climate risk associated with different investments. It should set out its views on the options for amending the capital regimes to reflect its new remit, taking into account the potential interaction with the other aims of prudential policy.

The regulatory capital framework is designed to ensure firms hold adequate capital against financial risks to maintain an appropriate degree of loss absorbency, and in some areas, to reflect the risks their activities pose to the wider financial system. This helps advance the PRA's primary objective of promoting safety and soundness of the firms it regulates and the Bank's objective to maintain financial stability.

Climate change and the transition to a net-zero economy would therefore only be appropriately reflected in the regulatory capital framework to the degree it meets those objectives. The Bank has been a prominent domestic and international driver for the recognition that the physical effects of climate change (e.g. sea-level rises and more frequent severe weather events etc.) and the transition to a net-zero economy (e.g. changes in government climate policy, technology, and consumer preferences) can create financial risks. Further work is needed to assess if the regulatory capital framework is robust to these risks.

Consistent with the range of evidence the Committee has heard, determining whether and how the framework should be adjusted in light of these risks is a highly complex topic. It is important that we get any assessment right, as miscalbiration could result in unintended consequences across the financial system that affect our wider objectives.

The challenges in making this assessment are common to the challenges climate change poses to financial firms and policymakers more broadly–we need a risk-based economy wide UK taxonomy, better data, disclosure, risk management, and scenario analysis. The Bank's climate strategy and work plan, as set out in the Bank's climate-related financial disclosure report, seeks to address these underlying issues and build up our information base.

For example, the Bank is using climate scenarios in its CBES exercise, which while not being used to set capital requirements, will help to identify climate-related vulnerabilities that may exist across the financial system. We have also worked as part of the joint UK Government-Regulator taskforce to set out a roadmap to mandatory climate disclosure requirements across the UK economy, improving the availability of climate data.

Furthermore, as firms must ensure they are prudently managing their risks and holding adequate capital against them, the PRA has set ambitious supervisory expectations[12] that require banks, building societies and insurers to deliver a step-change in how they address the financial risks from climate change by the end of this year. As part of this, firms will need to set out to us how they have gained comfort that they are holding adequate capital to account for potential climate-related financial risks and the losses these may create.[13]

Firms will of course face similar data and methodological challenges when considering the impact to their own capital position as we would when considering the robustness of the regulatory capital framework. However, they will have the benefit of a more detailed understanding of their clients, prompted in part by our CBES. We will aim to learn from what firms can and cannot do when reviewing our own approach. It is therefore appropriate we work closely together on these issues to share best practice and develop our understanding, for example through the Climate Financial Risk Forum (CFRF).[14]

At the international level, where many capital standards are set, the Basel Committee on Banking Standards, Financial Stability Board, and International Association of Insurance Supervisors are assessing potential climate-related gaps in regulatory and supervisory frameworks. The Bank is actively contributing to these discussions and is also playing a leading role in climate-focused regulatory groups such as the Network for Greening the Financial System and Sustainable Insurance Forum.[15]

It is, however, important to bear in mind that while the Bank, other central banks and supervisors, and the financial system have a role to play in supporting the transition to a net-zero economy, the biggest component of the journey to net-zero rests with governments, through the delivery of sector-level climate policy pathways. Without these the real economy cannot adjust effectively, and risk management by financial firms and financial regulation will necessarily be imprecise given the very broad range of possible outcomes.

Furthermore, absent this clarity, the regulatory capital framework should not be used as a tool for internalising the external cost of emissions nor for creating policy incentives for greening the economy. Fiscal and other government tools are better suited to this task, such as carbon taxes, emissions trading schemes, emissions regulations, and other climate policies. In short, the regulatory capital framework cannot substitute for government climate policy and is therefore not the most effective vehicle for driving the transition.

In addition, while important, capital requirements are not the sole factor in how banks and insurance companies determine their strategy. They also take into account other sources of costs, potential opportunities, the economic outlook, competition, demands from their customers and stakeholders, and forward-looking risk management of their business

12 The PRA published Supervisory Statement 3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' in April 2019 and sent a letter to the CEOs of banks and insurers in July 2020

13 The PRA expects firms to include further information in their Internal Capital Adequacy Assessment Process (ICAAP) or Own Risk and Solvency Assessment (ORSA)

14 The CFRF is a forum comprised of financial firms and is co-chaired by the PRA and FCA

15 Sarah Breeden, the Executive Sponsor for climate change and Executive Director of UK Deposit Takers Supervision at the Bank of England, is the chair of the NGFS Macrofinancial workstream. Anna Sweeney, Executive Director of Insurance Supervision at the Bank of England, is the chair of the Sustainable Insurance Forum. Victoria Saporta, Executive Director of Prudential Policy at the Bank of England, is chair of the International Association of Insurance Supervisors.

and operations. It is for this reason that the PRA has taken a broader view through its supervisory expectations to ensuring financial firms play their part and adopt a strategic approach to climate change.

Taken in the round, the Bank's domestic steps and ongoing international work will provide a deeper understanding of the relationship between climate change, financial risks and regulatory capital. The PRA will continue to drive this work forward and will consider how new information should be considered in the framework as it becomes available.

Next Steps

The Committee's report is an important contribution to the parliamentary oversight of the Bank's work on climate change and the broader role of UK authorities and the financial sector in supporting the transition to a net-zero economy. We all have a role to play and I have committed to ensuring this remains a priority for the Bank. I look forward to further engaging with the Committee on this important issue in future.

Andrew Bailey

Governor of the Bank of England

25 June 2021

Appendix 3: Response from HM Treasury

Introduction

The Government thanks the Committee for its work on 'Net zero and the future of green finance'. The Committee raises a number of issues and suggestions, which the Government will reflect on as we continue to work through the next stages of the transition to net zero. We will continue to take a flexible approach and keep all impacts and policies under review.

The economic opportunities and costs of net zero

Although the Government has emphasised the need for a "green" recovery, we note it has not, except in limited circumstances, imposed green conditionality on the support it has provided during the coronavirus pandemic. Whilst it is clear that support schemes were required to be provided without delay the Treasury should set out why it did not include green conditionality for the Recovery Loan Scheme announced in the 2021 Budget. (Paragraph 23)

The Recovery Loan Scheme (RLS), announced at Budget 2021, ensures that lenders continue to have the confidence to lend, and that viable businesses continue to have access to Government-backed finance throughout 2021. The scheme operates UK-wide and provides an 80% guarantee to lenders for term loans, overdrafts, and invoice and asset finance. Given the objective of the scheme to ensure continued access to finance for viable businesses it was important that businesses from all sectors and regions are eligible to access support through the scheme, rather than only businesses involved in the green recovery.

The Government has made bold claims that the economic recovery will be a green recovery. In order to achieve that, the Government needs to set out in its Net Zero Strategy who, at ministerial level, will be responsible for delivering net zero, coordinating the roles of different departments, and ensuring that the UK remains on track to meet its net zero target in a cost-effective way. (Paragraph 30)

The Government is committed to a green recovery from the COVID-19 pandemic. The Ten Point Plan is part of the Prime Minister's mission to level up across the country. It will mobilise £12 billion of Government investment to create and support up to 250,000 highly-skilled green jobs, and spur over three times as much private sector investment by 2030. This will drive forward the green industrial revolution and build the green jobs and industries of the future. BEIS is the lead department responsible for net zero, as well as co-ordinating work across different delivery departments to reduce emissions. Given this, the Department for Business, Energy and Industrial Strategy (BEIS) leads work on the Government's overall strategy and will be publishing the Net Zero Strategy in the Autumn.

In the Net Zero Review final report, the Government should set out what mechanisms it will put in place to integrate the net zero target within departments' spending review commitments, and how departments will be held to account should they fail to meet their targets. (Paragraph 35)

The Net Zero Review final report will be an analytical document that uses existing data to explore the key issues and trade-offs as the UK decarbonises. It will not be making policy recommendations, including on individual departmental spending and net zero commitments. However, it will include an update on how climate considerations are being embedded within HM Treasury governance arrangements, guidance and processes.

The Chancellor should publish the Net Zero Strategy as soon as possible and should set out, in conjunction with the Net Zero Review final report, the principles upon which the UK will fund its transition to net zero carbon emissions by 2050. (Paragraph 46)

BEIS is the lead department responsible for net zero, as well as co-ordinating work across different delivery departments to reduce emissions. Given this, BEIS leads work on the Government's overall strategy and will be publishing the Net Zero Strategy in the autumn.

Against a backdrop of significant uncertainty on technology and costs, as well as changes to the economy over the next 30 years, the Net Zero Review final report focuses on the potential exposure of households and sectors to the transition, and highlights factors to be taken into account in designing policy that will allocate costs over this time horizon.

There are a number of different estimates of the cost of achieving net zero by 2050. However, the Government has not yet committed to its own cost estimates and should set these out as soon as possible. The Government should include in the Net Zero Review final report its own methodology on costs; and it should set out clearly where the uncertainties lie. The Treasury should also include a range of scenarios on how net zero might be achieved, and the associated cost for each scenario. (Paragraph 47)

The Net Zero Review interim report highlighted the challenges in producing cost estimates and where the uncertainties lie. BEIS is the lead department responsible for net zero and the Government's latest cost estimates are set out in BEIS' Carbon Budget 6 impact assessment. The core scenario estimated a cost equivalent to 1-2% of GDP (1.6% in 2035 and 1.8% in 2050).

The Net Zero Review final report will highlight factors that could contribute to an efficient transition, as well as factors to be considered in designing policy that will allocate costs through to 2050. It will be an analytical report that uses existing data to explore the key issues and trade-offs as the UK decarbonises. Against a backdrop of significant uncertainty on technology and costs, as well as changes to the economy over the next 30 years, it focuses on the potential exposure of households and sectors to the transition, and highlights factors to be taken into account in designing policy that will allocate costs over this time horizon.

The Treasury's Net Zero Review final report should include clear sectoral pathways towards decarbonisation and should address the key policy decisions as to the future of high carbon industries. Particular attention should be given to the potential regional impact of those decisions, and the Government should set out a framework and strategy for supporting those communities which will be most impacted by these changes. This is especially important given the Government's commitment to a Just Transition as part of the Paris Agreement. (Paragraph 53)

Lead delivery departments are responsible for and have produced sectoral strategies, and will continue to do so. For example, BEIS published the Industrial Decarbonisation Strategy in March 2021.

Green finance to support green decarbonisation

The Government has recognised that private finance will need to play a key part in funding the transition to net zero. If it is to do so, the Government will need to provide long-term certainty in climate-related policy and must ensure that consistent policy signals are sent to investors. We are encouraged that the Government acknowledged these needs in the 2021 Budget. (Paragraph 59)

In 2019 the UK was the first major economy to set a 2050 net-zero target. Since then, the Government has set ambitious interim targets, including most recently a 78% reduction in greenhouse gas emissions by 2035. The UK is also the first country in the world to set legally-binding carbon budgets, progress against which is independently monitored by the Committee on Climate Change.

In its Green Finance Strategy in 2019, the Government set out in even greater detail what these ambitions mean for the financial sector. This presents a comprehensive approach to greening financial systems, mobilising finance for clean and resilient growth, and capturing the resulting opportunities for UK firms.

We welcome the announcement in the 2021 Budget of a timetable for the issuance of the UK's first green sovereign bond or 'green gilt'. However, the UK is lagging behind other countries in the issuance of these green bonds. This runs the risk of holding back the development of a private sterling green bond market. Although concerns about the potential for green bonds to be a more expensive form of debt for the Government seem to have dissipated to a degree, the Government should none the less set out its tolerance, when issuing such bonds, for them to be more expensive than other forms of Government debt. (Paragraph 66)

The Government has always remained open to the introduction of new debt financing instruments, including green bonds. However, before doing so the Government would need to be satisfied that any new instrument would meet value-for-money criteria for the taxpayer, enjoy strong and sustained demand in the long term, and be consistent with debt management and wider fiscal objectives. After carefully monitoring how the sovereign green bond market has developed over recent years and conducting a detailed assessment against these criteria, the Treasury and UK Debt Management Office (DMO) believe that now is the right time to issue this type of instrument. At Budget the Chancellor announced the UK's commitment to issue at least £15bn of green gilts in FY 2021/22, as the UK looks to build out a green yield curve, and to report on the social co-benefits of green spend. While the UK is by no means the first sovereign to enter this market, this announcement demonstrates the UK's ambition to be a large, innovative issuer in this space.

In addition, on 30 June, the UK Government Green Financing Framework–under which the UK will issue green gilts and National Savings & Investments' (NS&I) Green Savings Bonds–was published. This ambitious document details how proceeds raised from these products will be used for financing green expenditures which will help tackle climate change and other environmental challenges while creating green jobs across the UK. It lays out the six categories of green expenditures to be financed: Clean Transportation, Energy Efficiency, Renewable Energy, Pollution Prevention & Control, Living & Natural Resources and Climate Change Adaptation.

In its Framework, the UK is going further than other sovereigns in many areas: i) we are the first to issue a bespoke green retail product tied to a sovereign green bond framework; ii) we are the first major sovereign to commit to reporting on the important social co-benefits of green expenditures financed by the green gilts and retail product, such as job creation and access to affordable infrastructure; and iii) we are setting an ambitious 50% minimum threshold on the proportion of proceeds that will be allocated towards financing current and forward-looking green expenditure, as well as limiting the financing of past expenditures to one year prior to issuance. This is as forward-looking as any major sovereign issuer to date (the Netherlands and France have adopted the same approach).

While the pricing of a green gilt is untested until a transaction takes place, the Treasury and the DMO are confident that the inaugural green gilt will price competitively relative to the conventional gilt curve. This is based on market feedback about demand for the green gilt and the recent experience of comparable sovereign issuers, and assumes current market conditions. The Treasury and the DMO will continue to assess the value-for-money case for green gilts, including assessing the latest market and demand conditions when considering issuance. The Government's debt management objective remains to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk.

We note the new remit provided to the Monetary Policy Committee, which will allow it to rebalance its Corporate Bond Purchase Scheme to take account of the climate impact of the bonds it holds. We will continue to scrutinise this process and will examine how any changes are enacted, and how those changes impact on the other policy objectives and the independence of the Monetary Policy Committee. (Paragraph 74)

The Monetary Policy Committee (MPC)'s primary objective of maintaining price stability is unchanged. Subject to achieving its primary objective, the MPC's secondary objective is to support the economic policy of the Government–the Government has updated the text describing its economic strategy to reflect the importance of environmental sustainability and transitioning towards net zero. It is for the Bank to judge how it can support the Government's green and other economic objectives while achieving its primary objective of price stability.

We note the debate at the Productive Finance Working Group Steering Committee on retail access to the 'long term asset fund' (LTAF). There should be clarity about who will have access to the LTAF. The Chancellor and the financial regulators should set out the timeframe for the launch of the announced 'long term asset fund' to allow pension savers to invest in long-term projects. We would expect that such an LTAF would be focused on providing a net-zero compliant product. (Paragraph 80)

Since the publication of the Net Zero and the Future of Green Finance report, the Financial Conduct Authority (FCA) has published a consultation on the regulatory rules for the long-term asset fund (LTAF) structure. This consultation closed on 25th June 2021. The proposed LTAF will be a new category of open-ended fund designed to enable authorised funds to invest efficiently in long-term illiquid assets.

Illiquid assets include investments that will support the transition to a net zero carbon economy, such as investments in renewable energy infrastructure. UK investors currently invest in illiquid assets mainly through closed-ended structures but some investors prefer investing in open-ended funds. An ability to invest in illiquid assets, through appropriately designed and managed investment vehicles, could help support the transition to new zero. The FCA are not however proposing to require LTAFs to invest in any particular assets and ultimately firms will make a commercial decision about whether to offer or invest into such projects.

The FCA's consultation includes a section on who will be able to invest in the LTAF, and the FCA is expected to finalise rules in the Autumn. The Government cannot commit to a timeframe for the launch of these products as it will be for industry to establish and invest in these funds, but the Chancellor has previously outlined his ambition to see the first LTAF launch this year.

The Treasury should, as part of its review of Solvency II, consider reforms that could improve the funding of sustainable green infrastructure while maintaining the financial stability of insurers. (Paragraph 84)

The Government agrees with this recommendation. The Government wants to see a prudential regulatory regime for the insurance sector that is more proportionate and flexible so that it works more effectively and outcomes can be delivered more efficiently. Such a regime would provide a solid foundation for insurance firms to provide long-term capital to the economy including investment in long-term productive assets as well as investment consistent with the Government's climate change objectives. The Government published a response to its Call for Evidence on Solvency II on 1 July 2021, setting out the next steps in spurring a vibrant and competitive insurance sector without compromising high standards of policyholder protection.

In the proposed framework for the new UK Infrastructure Bank, the Chancellor should clarify its governance arrangements, how investment decisions will be made, and how it will ensure that it attracts sufficient private capital. In particular, it should clearly set out how the Bank will meet the Government's commitment to Net Zero. The Government should also set out how it will incorporate lessons learned from the former Green Investment Bank, and whether it intends that the UK Infrastructure Bank should be funded to offer a lending facility at a level similar to that offered by the European Investment Bank before the UK referendum on membership of the EU. (Paragraph 95)

The Government has recently published a framework document setting out further detail on the UK Infrastructure Bank, including its governance arrangements, investment principles and measures to ensure consistency with its climate objectives.

As part of the policy development process for the UK Infrastructure Bank, the Government has considered where it can learn lessons from domestic and international public financing institutions. This has included analysis of the Green Investment Bank and engagement with former staff. This process has helped to inform the design of the Bank and continues to be an ongoing area of consideration.

The Bank will have access to £12 billion of debt and equity capital. In addition, it will also be able to issue a further £10 billion of guarantees. This is a significant commitment by Government to the new institution. We expect the Bank to be able to use this initial capital and its guarantees to crowd in private investment, to support over £40bn of infrastructure investment overall. The Bank will be able to recycle capital and reinvest returns. This will enable the Bank to scale up its balance sheet over time. The Government will also review the Bank's progress and financial performance by Spring 2024, to ensure it has sufficient capital to deliver its ambitions.

While the Bank will replace some of the functions of the European Investment Bank, it will be more targeted, more focused and better aligned with Government objectives, with a higher rate of additionality.

The role of consumers

There is a high level of inertia amongst consumers around defined contribution pension fund choice, with most remaining in the 'default' fund. The Treasury has been robust in its view that default funds should not be required to move to more green alternatives, but at the same time maintains that consumers should not have to switch out of the default fund to invest sustainably. The Government should resolve this apparent contradiction. At present the Treasury is relying on a blend of disclosure, regulation and public investment to foster a transition towards more sustainable investment. For now, we support that approach, but the Treasury should report regularly on the proportion of pension holders in defined contribution pension schemes who remain in the default fund, and the extent to which those default funds are aligned with a path to Net Zero. (Paragraph 108)

Pension scheme governance bodies have primacy in investment decisions and it is not Government policy to require them to invest in specific types of asset. A blend of disclosure, regulation and public investment will prove beneficial in nudging governance bodies to foster a transition towards more sustainable investment.

This is already taking place. Fifteen out of seventeen leading defined contribution providers have made net-zero commitments. The Pensions Regulator already reports on the proportion of pension holders in defined contribution pensions who remain in the default fund. The latest release indicates that 96% of savers are invested in a default strategy, marginally up from 95% in the previous two years. The Department for Work and Pensions' proposals for mandatory TCFD reporting includes all authorised multi-employer defined contribution schemes. Subject to Parliamentary approval, these regulations will come into force in October 2021. Schemes in scope will be required to publicly set and report on climate-related targets. Statutory guidance will also set the expectation that occupational pension scheme trustees should set targets of 10 years or less, or explain why not. Corresponding requirements for personal pension providers are also being consulted on by the FCA in June.

These public targets and annual reporting against them should enable Government and Regulators to meet the Committee's recommendation to monitor and report on the extent to which default funds are aligned with a path to net zero.

Consumers who hold defined benefits pensions have no choice as to how their assets are allocated. They rely upon their trustees. We note that previous attempts to get defined benefit schemes to acknowledge Environmental Social and Governance concerns have not been entirely successful. In its phased approach to implementing the regulations,

the Pensions Regulator will need to consider how to reach smaller pension schemes. The draft regulations appear to exclude the smallest trust schemes. However, when their effects are aggregated, they may still have an impact on meeting the net zero target. In responding to this Report, the Government should set out how these smaller funds will be encouraged to integrate climate governance and reporting requirements. (Paragraph 117)

More than 80% of pension scheme savers and more than 70% of assets are in schemes which will be subject to climate-related regulations by October 2022. The scope of requirements will be reviewed in the second half of 2023, at which point the duties may be extended. The exit of Defined Benefit (DB) schemes to buy-out and rapid consolidation in the Defined Contribution (DC) market will mean that a higher proportion of members and assets will be caught by 2023.

Smaller occupational schemes are not exempt from the requirement to consider climate change. As well as their fiduciary duties under trusts law, both occupational DC and DB schemes are required to publicly report on their climate change policy via the scheme's Statement of Investment Principles (SIP). The Pensions Regulator has committed to improving compliance with these requirements via its climate change strategy, which features an annual scheme return, enforcement mechanisms and transparency around SIPs.

In March 2021 the Pensions Regulator consulted on a Governance Code. This requires all schemes with 100 or more members carry out an assessment of their risks relating to climate change, the use of resources and the environment and risks relating to the depreciation of assets as a result of regulatory change.

The financial services industry broadly accepts that 'greenwashing' is detrimental to good consumer outcomes and to the achievement of the net zero goal. The Treasury must work with the FCA to ensure that the regulator has the appropriate remit, powers and priorities, and uses its powers, to prevent 'greenwashing' of financial products available to consumers. (Paragraph 124)

Clear standards for green investments are essential to maintain trust in the market and mobilise the finance necessary to achieve the net zero goal. In November 2020, the Chancellor announced a UK green finance taxonomy. This will provide firms and investors a common science-backed definition for environmentally sustainable economic activities. This will reduce greenwashing and avoid underestimating investment in the transition. The Treasury is working closely with the FCA on this.

Financial products should be clearly labelled to allow consumers to assess the relative climate impacts of products and to make choices accordingly. However, allowing every firm to create its own consumer sustainability labels may lead to inconsistencies and consumer confusion. The Treasury and the Financial Conduct Authority should consult on the merits of making climate or carbon labels for consumer financial products mandatory, as a means to encourage innovation. The FCA should consult on how best to make such labels readily and widely understood. (Paragraph 130)

As detailed in the green finance policy package[16] which the Chancellor announced during his Mansion House Speech on 1 July 2021, the Government will work with the FCA to introduce a sustainable investment label so that consumers and retail investors can clearly compare the impacts and sustainability of their investments for the first time.

Please refer to the FCA's response for further information.

We note the concerns expressed about indices, in that the most popular may be carbon-intensive, and those that purport to be green may have carbon-intensive constituents. The risk remains that many consumers are unaware of the carbon-intensity of the indices that their passive investments are tracking. The Treasury and regulators should therefore ensure that all indices (whether conventional or climate-friendly) clearly set out the overall carbon footprint of the assets included within indices. (Paragraph 137)

The Benchmarks Regulation places regulatory requirements on the provision and use of financial indices that are used as benchmarks. In 2019, the Benchmarks Regulation was amended to enhance the transparency and comparability of low-carbon benchmarks. The Regulation creates specific disclosure requirements and minimum standards to be used within the calculation methodology of benchmarks, and introduces two new categories of climate-related benchmark to support investors who wish to pursue climate-conscious investment strategies. This will help ensure that consumers can make informed decisions about their investments. Funds will also be in scope of the UK green finance taxonomy's disclosure obligations.

Please refer to the FCA's response for further information.

On the concerns around the constituents of indices described as 'green', we note the requirements under the Benchmarks Regulation, which should be used to help consumers make better choices. However, it is clear that in some cases the labels or descriptions of 'green' or 'climate-related' indices do not necessarily match legitimate consumer expectations of what they would commonly be understood to mean. The Treasury and FCA should review the provisions in the legislative and regulatory framework and ensure that the labels and descriptions of indices accurately reflect their content, in line with consumer expectations. (Paragraph 138)

The Benchmarks Regulation obliges all providers of benchmarks to disclose sustainability metrics or declare that they do not have a sustainability objective. This will help consumers verify the green credentials of benchmarks with a sustainability objective. The Treasury will continue to work closely with the FCA on these issues.

Please refer to the FCA's response for further information.

The Government's Green Finance Strategy noted the need for innovation in green finance products and services, yet the evidence we have received suggests that the pace of innovation could be accelerated and that more could be done to encourage take-up. The Financial Conduct Authority should seriously consider undertaking further "green fintech challenges" to encourage innovation. The regulator should also set out how it will tackle remaining regulatory barriers which discourage innovative 'green' financial

16 CCS0521556086-001_Mansion_House_Strategy_Document_FINAL.pdf (publishing.service.gov.uk)

products from coming to market. The Government and the regulators should work more closely with the Green Finance Institute to bring innovative ideas which will benefit consumers to the market. (Paragraph 149)

Please refer to the FCA's response for further information.

The Prudential Regulation Authority and Financial Conduct Authority should move quickly to incorporate their revised remits to include climate change. We will continue to monitor their progress and ongoing approach to the risks arising from climate change. (Paragraph 154)

Please refer to the FCA's and Bank of England's responses for further information.

We have heard differing evidence on whether there should be amendments to the capital regimes to promote net zero. In light of its new remit letter, the Bank of England must now explain its thinking, as to what measures it might consider appropriate for the capital regime to better accommodate the climate risk associated with different investments. It should set out its views on the options for amending the capital regimes to reflect its new remit, taking into account the potential interaction with the other aims of prudential policy. (Paragraph 168)

Please refer to the Bank of England's response for further information.

The Government has moved from a voluntary to a mandatory approach for ensuring that firms make climate-related financial disclosures. But the process will be run to different timetables for different firms, across different regulators according to the Roadmap published by the Joint Government Regulator TCFD Taskforce. The Treasury, via the Taskforce, will need to play a key role in ensuring that pressure is maintained for a consistent and rapid implementation of these disclosures. (Paragraph 182)

The Taskforce on Climate-related Financial Disclosures (TCFD) will be a powerful tool, but only if implemented properly. In the 2019 Green Finance Strategy (GFS), the Government established a UK TCFD Taskforce, chaired by HM Treasury and made up of regulators and Government departments, to consider a coordinated approach to implementing the TCFD recommendations in the UK. In November, the joint Government-Regulator TCFD Taskforce published its Interim Report and Roadmap outlining a pathway to mandatory climate-related financial disclosures across the UK economy.

We believe the timelines set out in the UK Interim Report and Roadmap provide the right balance between showing ambition and allowing businesses, investors and asset owners enough time to prepare to disclose meaningful information. The UK Taskforce has closely examined cross-cutting issues such as interdependencies, capabilities and resourcing across market participants in order to coordinate a fit-for-purpose and proportionate regime with requirements that are appropriate in a UK context. The UK is taking an ambitious yet realistic approach to compliance, with a significant proportion of companies reporting by 2023, and regulatory action is moving in sequence to match this, as the Roadmap in the Taskforce's Interim Report shows.

Since publishing our Interim Report and Roadmap, we have made significant progress towards achieving our ambition for mandatory climate-related financial disclosures across the UK economy. In January 2021 the Department for Work and Pensions published its consultation on draft regulations requiring a variety of pension schemes to make certain TCFD disclosures, and to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate-related risks and opportunities, from 2021. In March 2021, BEIS launched its consultation proposing requirements for certain publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs) to make climate-related financial disclosures in line with the TCFD recommendations. In June, the FCA published its consultation on proposals to extend the application of its TCFD requirements to standard-listed issuers.

Finally, the Chancellor has made sustainability disclosures a key priority of this year's G7 Finance Track and secured ambitious commitment for G7 countries to follow the UK's lead in moving towards mandatory climate-related financial disclosures.

We also draw the Treasury's attention to evidence suggesting that the disclosure regime could be widened in scope, and that firms might usefully offer fuller disclosures. (Paragraph 183)

The UK's joint regulator and Government TCFD Taskforce: Interim Report and Roadmap is a world-leading commitment to climate disclosures. Since publishing our Report, we have made significant progress towards achieving our ambition for mandatory climate-related financial disclosures across the UK economy.

Following consultation, on 22 June the FCA published a consultation to extend the application of its TCFD-aligned Listing Rule for premium-listed commercial companies to issuers of standard listed equity shares, and to introduce TCFD-aligned disclosure requirements for asset managers, life insurers, and FCA-regulated pension providers, with a focus on the information needs of clients and consumers. Earlier this year, DWP consulted on draft regulations requiring a variety of pension schemes to make certain TCFD disclosures, and to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate-related risks and opportunities, from 2021. The consultation proposes a review of pension scheme reporting in 2023, at which point DWP will consider broadening the scope of requirements.

In March, BEIS launched its consultation proposing requirements for certain publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs) to make TCFD-aligned disclosures.

In addition, during his Mansion House Speech on 1 July 2021, the Chancellor announced that the UK intends to introduce economy-wide sustainability disclosure requirements covering real-economy corporates, financial services firms and pension schemes. This will include requirements on firms to disclose the impact they are having on climate and broader sustainability factors–and the risks/opportunities these pose to their business. This will incorporate TCFD disclosures but be wider in scope. It will also include disclosures under the UK green taxonomy which will provide firms and investors a common definition for environmentally sustainable economic activities. The Government intends to legislate to deliver this and will publish a Roadmap setting out the approach to green finance regulation ahead of COP26.

A taxonomy is an important part of identifying what can be considered green investment, so the announcement of a UK taxonomy is welcome. The Treasury and regulators should work at speed to ensure that there is a clear timetable and legislative pathway to

deliver a UK taxonomy ahead of COP26 in November 2021. The UK can utilise the EU's taxonomy but can exceed it when it will assist the UK's goals. The UK should seize the opportunity presented by COP26 to use its own work on a taxonomy to push for greater international convergence. (Paragraph 192)

In November 2020, the Chancellor announced that the UK would implement a Green Taxonomy to create a common understanding of which economic activities are environmentally sustainable, improving understanding of the impact of firms' activities and investments on the environment.

On 9 June, Government launched a Green Technical Advisory Group to provide independent advice on taxonomy development and implementation This will include advising on how to ensure the metrics and thresholds which underpin the taxonomy (Technical Screening Criteria) are based on robust science, and are practicable and suitable for the UK market.

Finally, the Chancellor has made sustainability disclosures a key priority of this year's G7 Finance Track and secured ambitious commitment for G7 countries to work closely together and with international partners to determine the best approach to ensure global consistency in environmental impact reporting. HM Treasury is also actively involved in the International Platform on Sustainable Finance.

The Government is required to make Technical Screening Criteria via secondary legislation for climate change mitigation, and climate change adaptation no later than 1 January 2023. These TSC will be subject to appropriate, open consultation prior to making. In addition, the Government will publish a Roadmap setting out the approach to green finance regulation ahead of COP26.