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BRIEFING: Financial Services and Markets Bill 2022

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"The finance sector is vital to enabling our transition to a net-zero economy. This bill is a once in a generation opportunity to ensure regulators are empowered to deliver on the Government's commitment, made last year, to make the UK the world's first net-zero finance centre, which will attract trillions of pounds of green investment.

"The bill needs to make tackling climate change a priority for regulators alongside other key objectives, so they can call out greenwash, protect our pensions, and attract the new investment we need to cut our reliance on fossil fuels and reduce our energy bills. In these turbulent times, we have to get this right." - Karen Ellis, Chief Economist at WWF-UK, 7th September 2022

KEY POINTS

- The Financial Services and Markets Bill 2022 (FSM Bill) is a **"once-in-a-generation opportunity" to make financial services regulation work for the UK and deliver on the Government's COP26 commitment to build the world's first net-zero financial centre**.
- This will bring **significant economic returns and help address our economic challenges**, such as the ongoing cost of living and energy crises. Globally, an estimated **$32 trillion of investment is needed by 2030** to tackle climate change alone. The UK's financial centre could be a **global leader in funding the green transition** and **powering the economy of the future.**
- Leading business groups, representing all sectors of the UK economy, are calling for an ambitious focus on the delivery of solutions to the climate and nature crisis to give business the confidence to invest.
- The Bill delivers the government's Future Regulatory Framework (FRF), setting out how financial services regulation will work in the UK post-Brexit. The proposals include a major delegation of powers to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and changes to the objectives the government sets for these regulators. It will have far reaching implications for the finance sector and in turn the wider UK economy.
- This proposed legislation has the potential to create the right regulatory framework by giving the UK regulators the remit to promote a **booming UK green finance sector** and **capitalise on the green transition**. However, in its current form it will not require them to act with the proactivity required to establish the necessary conditions to do so.
- **The Government should introduce a new secondary statutory objective requiring the regulators to facilitate the alignment of the financial services sector and the wider economy with net zero and nature targets**.

BACKGROUND

The Bill provides an unparalleled opportunity to lean into the economy of the future

In a challenging economic climate, the green transition offers an enormous opportunity for people and businesses. The supply of goods and services to enable the global net-zero transition could be worth £1 trillion to UK businesses by 2030. Accelerating the roll out of low carbon technologies could reduce household bills by £1800 per year. This global transition requires investment – an estimated $32tn by 2030 - and the Government positioned the UK to capitalise on this business opportunity by committing to reaching net zero by 2050 and hosting the world's first net zero financial centre. Low-carbon financial services could generate an export opportunity of up to £7.5bn per year in 2030, rising to £17bn per year by 2050. However, the UK won't lead the global green finance sector without the right regulatory framework to support it.

As currently drafted the Bill does not actively support a leading green finance sector

The current Bill will not require the regulators to act with the proactivity required to establish the conditions for a leading green financial centre. It replaces an existing regulatory principle on sustainable growth – that regulators must consider alongside seven others when discharging their duties – with a principle on the need to contribute towards achieving compliance with the net zero target. However, legal analysis confirms that this would not provide an appropriate legal basis for regulators to facilitate the rapid growth of the green finance sector. Nor would it allow the regulators to acknowledge the vital role of nature in achieving net zero. HMT itself has pointed out that "the regulators are not required to act to advance their regulatory principles; instead, they must take them into account when pursuing their statutory objectives". Therefore, the Bill unnecessarily restricts a cost-free and impactful lever to achieve a globally leading green finance centre.

Not actively supporting the green finance sector now will bear economic costs

A secondary statutory objective on climate and nature is even more critical in light of the Bill's proposed new secondary statutory objective on competitiveness and medium to long term growth. We must ensure that any regulatory action to grow the economy is consistent with a net zero and nature positive transition, otherwise we risk exacerbating the overwhelming economic and societal shocks of failing to reach our net zero targets. Europe is estimated to lose 10% of GDP by 2050 if we don't tackle climate change. The growing impacts of the twin crises of climate change and nature loss, as witnessed in the UK and around the world with devastating fires, drought, and flooding, are creating new financial risks and societal and economic challenges, including higher insurance premiums and lower economic productivity, that will only deepen without action from Government and financial regulators.

We also have a time limited opportunity to build the world's first green financial centre and enjoy the associated first mover advantages of both greater international credibility and more business. Other jurisdictions are already actively developing their supporting regulatory frameworks. The French regulator, AMF, has a statutory objective linked to climate. The German regulator has a sustainability objective which integrates sustainability issues into its supervisory activities, with a focus on combatting "greenwashing". We need proactive, empowered UK regulators to stay ahead.

Contact details

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