



Sustainable Growth outside the Financial Services and Markets Bill

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Introduction

The Financial Services and Markets Bill (FSMB) assigns financial regulators with a secondary objective to advance “growth and competitiveness”. WWF and its partners, including Aviva, have campaigned for an accompanying “climate and nature” objective, which would embed these principles into financial regulators’ policymaking, rulemaking, guidance and supervision with far-reaching implications for the financial services sector, and the wider economy.



“A once in a generation regulatory reform”, the FSMB’s wide reach goes well beyond ESG-specific policies like TCFD reporting requirements and the Green Taxonomy to encompass the entire investment chain. WWF and partners continue to advocate for the inclusion of nature and climate as a secondary objective. The NGO sees this as the best way for financial flows to move towards a greener economy of the future. However, climate and nature is not expected to feature in the final act as a secondary objective. Instead, net zero will feature as a ‘regulatory principle’ – a much weaker legal mechanism – sitting alongside several other principles.

Key takeaways

Why growth/competitiveness and nature/environment together?

- If growth is to be resilient, the underlying economic activity has to be environmentally friendly. It is logical therefore for growth and competitiveness to sit alongside nature and the environment.
- Financial stability and economic growth are cyclical with short time horizons. However, nature and the environment have much longer time horizons, and it is imperative therefore that the thinking is joined up.

UK regulation

- Businesses listen to regulators. If the FCA, FRC, PRA etc. are mandated to advance climate and nature issues through regulation or supervision of firms, industry will respond meaningfully.
- The “pragmatic” approach to regulation in the UK is ideal as bringing about net zero cannot be “about lots of sticks”, there need to be incentives and an appreciation of what is realistic.
- As a first step, regulators need the power to demand a justification for what businesses are doing (and not doing), particularly around net zero.
- If financial regulators are mandated to advance climate change and nature, they are more likely to “think creatively” about issues such as how to evaluate the credibility of transition plans.
- A new objective is also not an expansion of powers for the regulators – it is a recalibration of them, to align with the Government’s own aims.
- Regulators must act proactively to achieve the Government's ambition of reaching net zero, reversing biodiversity loss, and building a 'net zero aligned financial centre'.

The wider economy

- The financial sector is just one industry with just one set of regulators, we need the same mandate for regulators across the wider economy.
- An industry stakeholder made the point that whilst they agree that there’s a role for the FCA, growth and competitiveness can't succeed without being net zero or nature-positive.
 - Investors aren’t always asking “the right questions”, which leads to an uneven playing field. Furthermore, “cost is king,” and customers aren’t asking these questions either.
 - Goes back to regulatory objectives. If environment and nature aren’t considered equal, investors won’t ask whether their activities align with regulation on net zero and nature.

Issues raised

Political messaging

- Highly technical discussions around regulation and financial services in relation to net zero is alien to most voters and therefore come across as a low priority. How can politicians be expected to champion this cause, messaging should be:
 - We cannot prosper without green growth.
 - The financial system dictates what gets funded or not, therefore key.
 - Financial regulators need a mandate to “align” the financial system.

Alignment is happening, but slowly

- Not long ago, financial institutions, “would pluck out of thin air” their financial commitment to ESG with no clear indication of what that would actually mean – “pure hogwash”. But this is less common now.
 - Regulators have helped shift the dial.
 - So have the companies themselves.
- Need to move forward with greater standardisation, transparency, and enforcement.
- Underlines the need for the wider regulatory landscape in finance and beyond to be mandated to bring about alignment.

Outcomes and future actions

- WWF and partners such as Aviva will continue to advocate for climate and nature to be better prioritised by regulators, whether in the Financial Services and Markets Bill or beyond.
- Financial and industry regulators need a mandate for net zero. The APPG acknowledges the steps taken by the Government, as stated in the Green Finance Strategy, but more needs to be done.
- Similarly, HM Treasury should be armed with specific climate objectives to facilitate the UK economy's decarbonisation.

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