JUNE 2023
ESPRESSO BRIEFING

MANAGING CLIMATE RISK
THE ROLE OF FINANCIAL REGULATORS IN THE NET ZERO TRANSITION

EXECUTIVE SUMMARY

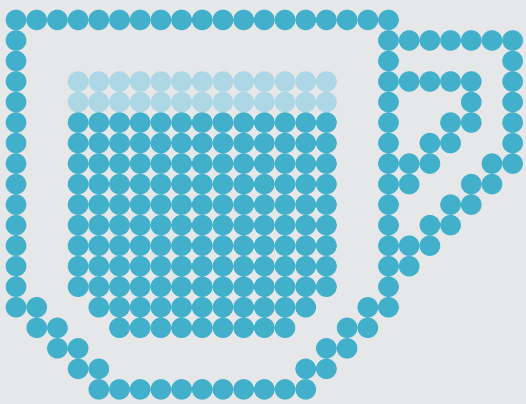
At COP26, then-Chancellor Rishi Sunak set out an ambition for the UK to become the 'world's first net zero-aligned financial centre'. This ambition not only acknowledges the important role the financial sector plays in facilitating a market-led transition to net zero, through underwriting risk, lending capital and investing in low-carbon projects, but the green finance growth opportunity the UK is well placed to capitalise on.

Aligning the activities of UK financial firms with domestic and global net zero goals is a vast undertaking and will require extensive engagement throughout the financial and related professional services ecosystem, from banks and insurers, asset managers and asset owners, to market exchanges, credit rating agencies, accountancy and law firms, and data providers.

The recent update to the Green Finance Strategy set out a pathway towards becoming a net zero-aligned financial centre. This pathway centres around improving the transparency and availability of climate and nature-related financial information, providing financial market participants with the tools to incorporate that information into investment decisions, and using government policy levers to shift and scale up the availability of finance for the transition to net zero. Key announcements included:

- A consultation on the introduction of transition plan disclosure requirements for the UK's largest companies
- A commitment to deliver the UK Green Taxonomy
- Further details on how the government will assess and endorse the International Sustainability Standards Board (ISSB)

The Green Finance Strategy also acknowledged the important role UK regulators have to play "to support the financial system shift necessary to achieve climate and sustainability goals". In their capacity, financial regulators work to ensure that financial services companies are managing their exposure to the risks from climate change and nature loss.



ALDERSGATE GROUP
LEADERS FOR A SUSTAINABLE ECONOMY

CUSP
Centre for the Understanding of Sustainable Prosperity

They do this by supervising companies, establishing and maintaining standards, issuing guidance, and applying and enforcing public policy – such as introducing disclosure and reporting requirements.

Whilst financial regulators have begun embedding climate and nature-related risk management into their policymaking, they face a number of barriers which prevent them more actively addressing environmental risks and achieving climate and nature-positive outcomes. The main barriers are:

1. A lack of comprehensive net zero-aligned policy across the real economy
2. A narrow regulator mandate
3. Limited capacity and resources

To ensure government and financial regulators are working in unison to mitigate the systemic risk posed by climate change and nature loss and facilitate an orderly transition to net zero, government must set out a strategic and sequenced approach:

1. The UK's Net Zero Strategy must continue to be implemented at pace to ensure that strong market signals for low carbon investments are set across the economy, with policy gaps addressed on a sector-by-sector basis. This is critical to avoid a scenario where financial regulators go beyond public policy, which risks creating perverse policy outcomes.
2. Regulation must follow public policy, rather than precede it. Therefore, once strong market signals are in place for most key sectors, as determined by an independent body, the government should amend the future Financial Services and Markets Act 2023 – currently going through Parliament – to upgrade the mandate of financial regulators to explicitly include support for the transition to a net zero and nature positive economy as a secondary objective. This will give regulators greater scope to embed climate change and nature into their work.
3. With an enabling mandate, regulators should look to use green prudential instruments – such a climate-adjusted capital requirements or large exposure limits – to facilitate the finance sector's transition to net zero. This will help to ensure the financial system is resilient to climate change, reduce the risk of stranded assets, and incentivise the shift of financial flows towards the low-carbon economy.
4. In the meantime, regulators should use their existing tools to support investors and asset owners engage with systemic, climate and nature-related risks. For example, by providing guidance to investors on how they can become responsible stewards of capital, supporting financial institutions to increasingly invest in low carbon infrastructure, and overseeing the creation and implementation of transition plans.
5. The government should provide regulators with sufficient resources and funding to support financial regulators carry out these new roles and responsibilities. Relevant staff should also undertake some form of formal training or qualification in green finance to ensure they have the right capabilities. This could form part of the Green Finance Education Charter, due to be relaunched as the Sustainable Finance Education Charter.

SECTION ONE: OVERVIEW OF UK FINANCIAL REGULATORS

Financial regulators are bodies which oversee the functioning of financial markets. They have a wide range of responsibilities, such as ensuring the stability and integrity of the financial system, protecting consumers and policyholders, supervising individual financial institutions, and overseeing the application of regulation. Regulators have a mixture of enforcement powers to achieve policy outcomes, from the light touch (e.g., issuing best-practice guidance) to the prescriptive (e.g., fines, suspensions and restrictions, and legal penalties).

Since 2015, when the then Bank of England governor Mark Carney made his "Breaking the tragedy of the horizon – climate change and financial stability" speech,[1] regulators have increasingly moved to integrate climate and nature-related financial risk management into their policymaking – accepting that climate change could cause material risks to the financial system and belonged within their mandates.

There are four main regulators in the financial services ecosystem: the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), the Financial Reporting Council (FRC), and The Pensions Regulator (TPR).

Table one: UK financial regulators and climate change

Regulator	Overview	Objectives	Recent actions taken to integrate climate risk management
FCA	The FCA is an independent public body, accountable to the Treasury. The FCA supervises the conduct of around 50,000 businesses, prudentially supervising 48,000 and setting specific standards for around 18,000.	The strategic objective of the FCA is to ensure financial markets are honest, fair, and competitive. Its operational objects are to: · Protect consumers from bad conduct. · Protect the integrity of the UK financial system. · Promote effective competition in the interests of consumers.	**December 2020 –** Introduced a rule for UK premium listed companies to publish mandatory disclosures in line with the recommendations of the Taskforce for Climate Related Disclosure (TCFD), initially on a comply or explain basis. In December 2021, the scope of TCFD-aligned reporting was expanded to standard listed companies, FCA-regulated asset managers and asset owners, and certain large private companies. **January 2022 –** Introduced a rule for listed companies, asset managers and asset owners to disclosure net zero transition plans as part of their TCFD-aligned disclosures, initially on a comply or explain basis. **January 2023 –** Closed a consultation on Sustainability Disclosure Requirements (SDR) and investment labels.
PRA	The PRA is a division of the Bank of England, which is publicly owned but operationally independent of government. It is the prudential regulator of around 1,500 banks, building societies, credit unions, insurers, and major investment firms.	The PRA has two primary statutory objectives: · Promote the safety and soundness of PRA-authorised firms. · Ensure insurance firms contribute to secure an appropriate degree of protection for policyholders. The PRA also has a secondary objective to: · Facilitate effective competition in the markets for services provided by PRA-firms.	**March 2019 –** Set up the Climate Financial Risk Forum with the FCA to build capacity and share best practice to help the financial sector address climate-related financial risks. **May 2022 –** Published the results of its first ever Climate Biennial Exploratory Scenario (CBES). With the participation of 19 leading UK banks and insurers, the CBES set out to understand the resilience of financial institutions and the broader financial system to climate-related risk. **October 2022 –** Hosted a climate and capital conference with central bankers, financial regulators, academics, and industry experts to discuss the issues associated with adjusting the UK's capital framework to account for climate-related financial risks.

1: Mark Carney (2015) Speech: 'Breaking the Tragedy of the Horizon – climate change and financial stability'.

Regulator	Overview	Objectives	Recent actions taken to integrate climate risk management
FRC	The FRC is a private, independent body. It sets accounting, auditing, and actuarial standards for high quality corporate governance and reporting, as well as the UK Corporate Governance and Stewardship Codes. The FRC is expected to transition to the Audit, Reporting and Governance Authority in 2023.	The FRC has five key objectives. These include: · Setting high standards in corporate governance and stewardship, corporate reporting, auditing, and actuarial work, and assessing the effectiveness of the application of those standards. · Influencing the development of international standards, sharing best practice, and incorporating appropriate standards into the UK regulatory framework.	**July 2021 –** Published a Statement of Intent on ESG, identifying underlying issues with the production, audit and assurance, distribution, consumption, supervision and regulation of ESG information. The FRC published an update to the statement in January 2023. **February 2023 –** Announced plans to conduct audit quality spot checks to ensure financial reports accurately reflect a company's climate and ESG-related disclosures.
TPR	TPR is a public body, sponsored by the Department for Work and Pensions. It regulates work-based pension schemes and is tasked with driving up standards and tackling risk by engaging with pension schemes.	TPR has six statutory objectives. These include: · Protecting the benefits of members of occupational and personal pension schemes. · Reducing the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund.	**September 2022 –** Updated its guidance to help trustees of pension schemes meet their legal obligation to manage and report on climate-related risks and opportunities. **February 2023 –** Announced a new campaign (and regulatory initiative) to ensure trustees of schemes publish statement of investment principles (SIP), which detail the policies guiding how a scheme invests, including consideration of ESG and climate factors.

Much of the UK's financial services regulation has been derived from EU legislation and onshored as retained EU law. The Financial Services and Markets Bill, currently going through Parliament, seeks to reform the architecture of financial services regulation in the UK to reflect its new position outside the EU.

The Bill, as it stands, revokes retained EU financial services law, grants greater rule-making powers to UK financial regulators, and sets new measures to keep financial regulators accountable.[2] These measures include:

- A new secondary objective for the FCA and PRA to advance the international competitiveness and medium to long term growth of the UK economy.

- A new regulatory principle for the FCA and PRA to have regard to the need to contribute towards achieving compliance with both the UK's net zero emissions target and environmental targets. This substitutes an existing regulatory principle in the Financial Services and Markets Act (2000) to have regard to the 'desirability of sustainable growth in the economy of the United Kingdom in the medium or long term'.

Whilst financial regulators have been increasingly integrating the risks from climate change and nature loss into their policymaking, as demonstrated in table one, this does not yet represent the level of change needed to reorientate the financial system with net zero. To act at the necessary pace and scale, financial regulators need to be better equipped with the right tools and resources.

2: House of Commons Library (2022) Research Briefing: Financial Services and Markets Bill 2022-3

SECTION TWO: WHAT IS INHIBITING FINANCIAL REGULATORS FROM EMBEDDING CLIMATE CHANGE AND NATURE FURTHER INTO THEIR WORK?

The UK financial sector remains exposed to high levels of climate-related financial risk:

- The Bank of England's CBES found that, without an early and orderly transition to net zero, climate risks could cause a "persistent and material drag" on the profitability of banks and insurers. Under a no additional action scenario, banks and insurers could face losses of £334 billion by 2050.[3]

- The London Stock Exchange (LSE) holds 47 $GtCO_2$ of embedded emissions in the fossil fuel reserves of listed and partially-listed companies, 10 times the UK's carbon budget between 2023–37.[4] This leaves the LSE significantly exposed to the risk of stranded assets through the energy transition, threatening the wider financial services ecosystem.

- Climate-related risk reporting and disclosure will help guide investors' financial decision making, but only if the information is credible. Out of the 1,448 UK organisations that disclosed their transition plans through CDP in 2022, only 28 per cent reported having developed a 1.5C-aligned climate transition plan.[5] The lack of credible climate transition plans will make it difficult for financial institutions to align their business activities with net zero, exposing them to increased risk.

Given that over half of global GDP, $44 trillion, is moderately or highly dependent on biodiversity,[6] it is clear that the financial sector – and wider economy – is exposed to financial risks from short and long-term nature loss. Dependencies, risks, and impacts on nature, though, are less well understood and reported on than climate. The Green Finance Institute, together with the Bank of England and Defra, will publish a report later this year revealing the potential financial impacts of biodiversity loss and ecosystem degradation on UK businesses and financial institutions. This report will be an important first step in tackling nature-related risks.

As a highly regulated sector, "financial market participants are highly influenced by their regulatory regimes and respond to signals that regulators and supervisors set them".[7] Financial regulators, therefore, have an important role to play in setting the right signals that support financial institutions to manage climate risks and allocate capital towards the low-carbon economy.

There are three main barriers preventing regulators from setting signals that would help firms to more comprehensively manage their exposure to climate and nature-related risks: one, a lack of comprehensive net zero policy across the real economy, two, a narrow regulator mandate, and three, limited capacity and resources.

Barrier one: Lack of comprehensive net zero policy across the real economy

To ensure financial stability is safeguarded, consumer protection is secured and net zero is supported, there needs to be strong coordination between policymakers and regulators in their respective roles.

It was therefore positive to see, in the government's response to the Independent Review of Net Zero, a commitment to establish a new forum – building on the UK Regulators' Network – to coordinate across all regulators on the signals they are sending to businesses and investors about the net zero transition.

> Under a no additional action scenario, banks and insurers could face losses of
> **£334 billion**
> by 2050.

3: Bank of England (2022) Results of the 2021 Climate Biennial Exploratory Scenario

4: Carbon Tracker (2022) Unburnable Carbon: Ten Years On

5: CDP (2023) Are companies developing credible transition plans?

6: UK Parliament Post (2022) Financial risks of nature loss

7: Aviva Investors (2022) Act now: A climate emergency roadmap for the international financial architecture

The update to the Green Finance Strategy also signalled that the government will be working closely with financial regulators through the following set of announcements:

- A review of the effectiveness of the Stewardship Code in creating a market for effective stewardship, led by the FRC working with the FCA, TPR, and the Department for Work and Pensions.
- A consultation on regulating ESG ratings providers
- Close coordination between government and regulators on the implementation of the Sustainability Disclosure Requirement.
- Setting up two advisory committees to support government in its decision-making on the adoption of the ISSB final standard. One committee will be government led, the other supported by the FRC and independently chaired.

Whilst these announcements are welcome, the lack of comprehensive net zero policy across the real economy is considerable barrier. This is demonstrated by the Bank of England's CBES which made it clear that, as the Bank sees it, *"the responsibility for addressing the causes of climate change ultimately lies with governments, businesses, and households"* whereas it is the role of the Bank to ensure *"appropriate resilience to the financial consequences of climate change".* The CBES also expressed a concern that some forms of prudential policy, such as capital requirements, would be less effective at addressing the underlying causes of climate change than other direct interventions and could give rise to *"unintended consequences for firms' safety and soundness".*

Early climate action is the best way to minimise business disruption and avoid the most catastrophic impacts of climate change. Without the appropriate policy framework and market mechanisms, however, government will not be able to transition the economy to net zero in an orderly fashion. This makes it more challenging for regulators to ensure the resilience of the financial system and risks creating unintended consequences through their use of prudential and market regulatory tools to support the net zero transition. For example:

- If regulators required mortgage lenders to improve the energy performance of the properties they lend against, lenders could seek to avoid carbon intensive properties. Such a requirement could create 'mortgage prisoners' in low energy efficient homes, without the appropriate regulations or incentives in place to improve energy efficiency and roll out low-carbon heat infrastructure in new and existing homes.
- If regulators required insurance companies to decarbonise their portfolios by a certain level and timeframe, insurance companies could quickly sell off fossil fuel activity. Government policy and regulation (such as transition plan requirements) must support genuine emission cuts in the real economy, rather than simply enabling the decarbonisation of investment portfolios (which could easily be achieved by investors selling off high carbon assets).[8]

Early climate action is the best way to **minimise business disruption** and avoid the most catastrophic impacts of climate change

Barrier two: Narrow mandate

Whilst mitigating climate and nature-related risks and supporting the transition to net zero does fall within the mandate of financial regulators, it has not been effectively mainstreamed.

Both the PRA and the FCA have a regulatory principle to have regard to 'sustainable growth' when considering how to advance its objectives and discharge its functions. This has been substituted, as proposed in the Financial Services and Markets Bill, to have regard to the need to contribute towards achieving compliance with the UK net zero emissions target and environmental targets (as set out in the Climate Change Act 2008 and the Environment Act 2021, respectively). This mirrors updates to their respective remits in the letters from the Chancellor following the Spring budget 2021.[9,10]

8: Aldersgate Group (2022): Building a UK Net Zero-aligned Financial Centre: what next?

9: HM Treasury (2021) Correspondence: Recommendations for the Prudential Regulation Committee

10: HM Treasury (2021) Correspondence: Recommendations for the Financial Conduct Authority

This regulatory principle, however, is not sufficient to truly integrate net zero across rulemaking, supervision and enforcement since, as noted by HM Treasury, 'regulators are not required to act to advance their regulatory principle; instead they must take them into account when pursuing their statutory objectives'.[11] It is for this reason that the government concluded that a regulatory principle on international competitiveness 'would not provide the regulators with the appropriate statutory basis required to act to support competitiveness in line with the government's vision for the sector'.

As a regulatory principle, there is a risk that regulators treat climate-related risks as a lower-tier issue, effectively deprioritising them in favour of other, shorter-term risks to financial stability.

The absence of a clear statutory objective on climate change and nature within regulators' mandate is a foundational issue which creates a tension whereby:[12]

- Regulators cannot proactively accelerate the transition to a low-carbon economy as this will overreach their existing mandate and undermine their market neutrality principle – and political independence.

- But regulators cannot wait to act until legal frameworks are put in place, as this will lead to a build-up of climate and nature-related risks within the financial system.

Barrier three: Resource and capacity

Financial services sector reforms will significantly expand the remit of financial regulators, both in climate-related and non-climate-related areas. Under current proposals, for example, the FCA will see its oversight functions expanded to cover cryptocurrency marketing,[13] 'buy now pay later' lending,[14] and ESG rating providers.[15] Without a clearer understanding of regulators' responsibilities to act on net zero, regulators are unlikely to mainstream climate and nature across all new activities.

On top of this, the already high volume of data being produced by businesses and financial institutions as part of their climate-related financial disclosures is set to increase dramatically when the new disclosures regime is eventually finalised, but already assessments are finding that over half of disclosures are not useful to investors.[16] The publication of net zero transition plans – which not only need to be produced, but implemented – will increase the volume of data further still.

The Regulatory Reform Group has suggested there are question marks over whether the knowledge-mix and skills within regulatory bodies is sufficient, and that high-turnover can contribute to a lack of institutional memory.[17]

With reports that the Bank of England plans to cut spending on its climate change work to re-direct money towards its core functions,[18] this raises the case for increased resources and capability-building within financial regulators to ensure the workforce is fit to meet its growing remit and scrutinise climate and nature-related financial information. This also underscores the importance of strengthening regulator's mandates to ensure that climate and nature policy is not deprioritised due to budgetary constraints. Equally, as noted by the latest report by the Coalition of Finance Ministers for Climate Action, without such a mandate "the necessary resources and expertise might be difficult to acquire".[19]

> There is a risk that regulators treat climate-related risks as a **lower-tier issue,** effectively deprioritising them in favour of other, shorter-term risks.

11: HM Treasury (2021) Financial Services Future Regulatory Framework Review: Proposals for Reform

12: Kings College London (2022) Regulatory leadership for a net zero transition: central banks and financial regulators, levers and limits

13: Financial Times (2023) UK pushes ahead with plans to bring crypto under mainstream regulation

14: Reuters (2023) Britain sets out legislation to regulate buy-now-pay-later credit

15: HM Treasury (2022) Financial Services: The Edinburgh Reforms

16: Manifest Climate (2022) Manifest Climate's Disclosure Benchmark Review

17: Regulatory Reform Group (2023) The purpose of regulation: Improving accountability of our regulators to get a better deal for consumers, businesses and the United Kingdom

18: Bloomberg (2023) Bank of England will cut spending for its work on climate change

19: Coalition of Finance Ministers for Climate Action (2023) Strengthening the role of ministries of finance in driving climate action

SECTION THREE: RECOMMENDATIONS FOR GOVERNMENT

Financial regulators have a key role to play in mitigating the systemic risk that climate change and nature loss poses to the financial system and facilitating the green transition. To maximise their role, government must set out a strategic and sequenced approach to unblock the barriers that regulators face.

1 Further develop and implement the net zero strategy at pace

Financial regulators are not climate policymakers. To avoid a scenario where regulators are driving net zero policy or where government policy is insufficient and regulators are unable to intervene, fiscal policy and market regulatory tools must act complementarily to avoid unintended consequences and minimise risks of an unjust transition.

This means the government must first set out a well-designed public policy foundation which creates attractive incentives for investment into net zero infrastructure and nature restoration by closing the gaps in the Net Zero Strategy (2021) in sectors which most urgently need to decarbonise (such as power, buildings, industrial decarbonisation, transport, and agriculture).[20] This will ensure sectoral decarbonisation takes placed in a targeted, efficient, and carefully-managed way.

2 Amend regulators mandate to explicitly include the transition to a net zero and nature positive economy as a secondary objective.

Once the implementation of the Net Zero Strategy is well underway and strong market signals are in place for most key sectors, the government should amend the future Financial Services and Markets Act 2023 to upgrade net zero and nature from a regulator principle to a secondary statutory objective. An independent body, such as a Joint Commission on Climate Finance Regulation led by the CCC and the Bank of England, should advice the government on when the Net Zero Strategy has been sufficiently well developed.

This is essential to embed climate change and nature as a core consideration across regulators' supervisory, rulemaking, and enforcement activities, ensuring that they do not slip down the priority list and that regulators are not accused of overreach by acting to mitigate climate risks and transition the economy to net zero.

20: See Aldersgate Group (2023) Net Zero Policy Tracker

There is strong private sector support for giving financial regulators a stronger net zero mandate. In written evidence to the Financial Services and Markets Bill Committee, 12 businesses – including Aegon UK, Aviva Investors, and Phoenix Group – said they "believe that there should be a secondary statutory objective for regulators to facilitate the transition of the financial services sector to net zero".[21]

Making net zero a secondary objective would also provide greater accountability and transparency, as regulators have a duty to report to Parliament on how they consider they have met their objectives. Crucially, regulators do not have to report on regulatory principles.[22] Improved public scrutiny will help to alleviate concerns that climate-related financial services regulation could produce negative unintended consequences.

3 With an enabling mandate, regulators should look to use green prudential instruments to facilitate the finance sector's transition to net zero.

The primary responsibility of financial regulators is to ensure the stability of the financial system, including financial institutions and market infrastructure. With an empowering mandate, regulators should look to use green prudential instruments to mitigate the systemic risk (both physical and transition-related) that climate change poses to the financial system.

Examples of green macroprudential instruments include:

- **Capital risk requirements.** Under international banking regulations, banks are required to set aside enough capital to cover unexpected losses and remain solvent in a crisis. Assets held are adjusted by a risk-weight that reflects the riskiness of various asset types, meaning riskier assets will require banks to hold more loss-absorbing liquid capital. Climate-adjusted capital requirements would more accurately reflect the risk associated with investing in assets which are incompatible with a 1.5C pathway and risk becoming stranded, such as new fossil fuel projects. This can incentivise financial institutions to pivot large quantities of capital away from high carbon assets and towards green investments.

21: Joint written evidence submitted to the Financial Services and Markets Bill Committee, 26 October 2022 *https://publications.parliament.uk/pa/cm5803/cmpublic/FinancialServicesMarkets/memo/FSMB32.htm*

22: CMS Law-Now (2022) Does the Financial Services and Markets Bill 2022 secure the UK's green finance agenda?

Large exposure limits. Large exposure limits are designed to prevent bank losses that result from a sudden failure of a single client or group of connected clients that hold a substantial value. When applied to climate change, such a measure could limit a bank's overleveraged position in carbon-intensive assets that are at high risk of stranding. The Banco do Brasil, for example, has imposed restrictions on financing for sugar cane crop expansion in ecologically important zones.[23]

4 In the meanwhile, financial regulators should use their existing tools to support investors and asset owners to engage with systemic, climate and nature-related risks.

With research suggesting that global temperatures are likely to breach 1.5C for the first time (albeit temporarily) within the next five years, there is clearly a need for near-term action.[24]

To support companies manage their environmental risk and achieve genuine emissions cuts across their business operations, the Aldersgate Group's (2022) Building a net zero financial centre: what's next? proposed financial regulators adopt the following measures now:

- Financial regulators should oversee the creation and implementation of net zero transition plans prepared by financial institutions and corporates to ensure their credibility.
- The FCA should open a consultation on producing a guideline on how investors can become responsible stewards of capital and engage with companies on environmental and climate ambition. This consultation should explore how a framework for managing potential divestment could be designed.
- Regulators should publish official guidance to encourage businesses to calculate and report material scope 3 emissions as part of their TCFD-aligned disclosures, building on the call for evidence on scope 3 emissions reporting expected in Q3 2023.
- The PRA should look to publish a scenario analysis standard to enable companies and LLPs to conduct more detailed scenario analysis, as part of the requirement introduced in 2022.

23: Positive Money (2022) The Green Central Banking Scorecard

24: World Meteorological Organisation (2023) Global temperatures set to reach new records in next five years

5 Support financial regulators overcome capability constraints.

To carry out these new roles and responsibilities, it is crucial that financial regulators are sufficiently staffed and resourced. Relevant staff, for example, should be given formal training to ensure they have the right skills (such as accurately assessing climate-related risks and opportunities) to adapt to a changing mandate. Secondments from industry and other regulatory bodies can also help accelerate skills and the exchange of knowledge and best practice. This could be delivered through the vehicle of the re-launched Sustainable Finance Education Charter.

Investment in resources and training should commence before the mandate is formally changed in law, as reskilling takes time and the transition to net zero is already underway.

Separately, the government should also ensure the Treasury Committee – and Treasury Sub-Committee on Financial Services Regulations – has sufficient resources to adequately scrutinise financial regulators on behalf of the UK Parliament, having taken over the responsibility from the European Parliament's Committee on Economic and Monetary Affairs.

> With research suggesting that global temperatures are likely to **breach 1.5C** for the first time within the next five years, there is a clear need for near-term action.

The Aldersgate Group is an alliance of major businesses, academic institutions, professional institutes, and civil society organisations driving action for a sustainable and competitive economy. Our corporate members, who have a collective turnover in excess of £550bn, believe that ambitious and stable low carbon and environmental policies make clear economic sense for the UK.

This policy briefng is one of a series published by Aldersgate Group, an alliance of major businesses, academic institutions and civil society organisations that drives action for a competitive and environmentally sustainable economy.

Contact: james.fotherby@aldersgategroup.org.uk