

Chancellor outlines ambition for UK's financial services sector

AT A GLANCE

November 2020

What's new?

- Rishi Sunak, Chancellor of the Exchequer, gave a [speech](#) outlining HM Treasury's (HMT) plans for the UK financial services industry on 9 November 2020.
- The speech focuses heavily on the green finance agenda, including proposals to establish a UK 'green' taxonomy, issue green sovereign bonds and become the first nation to mandate Task Force on Climate-related Financial Disclosures-aligned (TCFD) disclosures.
- The Chancellor also sets out initiatives to maintain a competitive post-Brexit financial services sector, including a review of the UK Listing Regime and a new regulatory approach for stablecoin initiatives.
- In addition, the [FCA](#) and [Bank of England](#) explored the role of the financial services sector in supporting climate transition in two speeches given on 9 November 2020.

What does this mean?

- As part of the wider regulatory drive for net-zero carbon emissions by 2050, HMT has published a [roadmap](#) for fully mandating TCFD-aligned disclosures, going beyond the 'comply or explain' approach set out by the FCA for premium-listed issuers in March 2020. The FCA has confirmed its intention to introduce its 'comply or explain' regime for reporting periods beginning 1 January 2021.
- The UK will also implement a 'green taxonomy', based on the scientific metrics established by the EU taxonomy. The UK Green Technical Advisory Group will be responsible for ensuring the metrics are appropriate for the UK market.
- The Bank of England (BoE) has also announced that the Climate Biennial Exploratory Scenario (BES) will be launched in June 2021. The BES will explore three different climate scenarios, testing different combinations of physical and transition risks over a 30-year period.
- In addition, the FCA has developed a set of principles to help firms mitigate greenwashing. The principles are intended to help firms interpret existing rules requiring that disclosures are 'fair, clear and not misleading', including when new products are submitted for authorisation.
- In order to increase the attractiveness of listing in the UK, the Government will establish a taskforce to review the UK Listing Regime and recommend reforms.
- HMT plans to publish a Call for Evidence on the UK's overseas regime, as well as a consultation on reforming the UK funds regime.
- The Government also announced its commitment to have the UK's first Long-term Asset Fund (LTAF) within a year, to encourage longer term investment in assets such as infrastructure and venture capital.
- The Government intends to publish a consultation exploring how to ensure privately-issued currencies, known as stablecoins, meet the same regulatory standards as other payment methods.
- The Chancellor also welcomed the BoE and HMT's work on a central bank digital currency.

Contacts

Conor Macmanus
Director

T: +44 (0) 7718 979428
E: conor.macmanus@pwc.com

Andrew Strange
Director

T: +44 (0) 7730 146626
E: andrew.p.strange@pwc.com

Georgie Messent
Environmental and
Sustainability Legal Advisor

T: +44 (0) 7870 598098
E: georgie.messent@pwc.com

Luke Nelson
Senior Manager

T: +44 (0) 7808 107043
E: luke.a.nelson@pwc.com



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What do firms need to do?

- While the FCA's 'comply or explain' TCFD regime takes effect in 2021, firms choosing to explain any non-compliance should be cognisant of HMT's new proposals to make TCFD-aligned disclosures mandatory. Most of the regulatory measures are expected to enter into force by 2023 and we expect that there will be sanctions for non-compliance.
- The TCFD's latest [Status Report](#) should help to inform approaches to embedding climate-related disclosures.
- Firms are likely to welcome the clarity around the UK's proposed establishment of its own taxonomy framework. But this could create challenges for UK-based firms with a presence in the EU, which may be required to comply with two separate taxonomy regimes if the UK regime diverges in its approach.
- For firms participating in the now-confirmed 2021 climate risk BES, preparation should already be underway, in particular around gathering data on clients and counterparties' exposure to climate-related risks.
- Firms participating in the BES should make use of the guidance produced earlier this year by the Climate Financial Risk Forum, including the chapter on [scenario analysis](#). The chapter provides practical guidance and case studies to inform approaches.
- Asset managers should review their approaches to product classification and governance in order to effectively manage potential greenwashing risks and to take into consideration compliance with disclosure requirements. Firms should establish appropriate governance frameworks to prevent greenwashing, and ensure staff with the relevant skill sets are in place to oversee and support this.
- In addition, ongoing monitoring of, and reporting against, the ESG credentials of products should also be used as a basis for managing greenwashing risk, including verification of underlying holdings.
- Asset managers should consider what opportunities a LTAF structure in the UK would provide for investment in illiquid assets.
- Firms undertaking activities involving stablecoins have had a clear steer that the UK will look to implement high standards akin to those for payment services. We are likely to see proposals that will guard consumers against fraud, ensure safe and reliable transfers and look to promote innovation.
- Firms may even have to prepare for elements of payments regulations, such as incident reporting, being adapted for digital asset providers. We encourage firms to engage in the consultation process once it goes live.

Contacts

Conor Macmanus
Director

T: +44 (0) 7718 979428
E: conor.macmanus@pwc.com

Andrew Strange
Director

T: +44 (0) 7730 146626
E: andrew.p.strange@pwc.com

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T: +44 (0) 7870 598098
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Next steps

The Bank of England's climate change BES stress test will take place in **June 2021**.

The Government will mandate TCFD-aligned disclosures across the financial services industry by **2025**. PRA-regulated and premium-listed firms will be expected to disclose in line with TCFD by **end-2021**, with many of the other requirements for the remainder of FS firms entering into force by **2023**.

The FCA aims to finalise its principles for mitigating greenwashing in the new year.

