

UK financial sector's net-zero progress risks stalling as government mixes messages, lawmakers say

29 Nov 2023 | 14:13 GMT | **Insight**

By [Abhishek Kumar](#)

Many UK-based financial institutions aren't clear enough about how much financing they still give to companies that aren't aligned with global climate action, while the UK government isn't doing enough to promote green finance policies, Parliament's Environmental Audit Committee has warned in a new report.

Many UK-based financial institutions aren't clear enough about how much financing they still give to companies that aren't aligned with global climate action, while the UK government isn't doing enough to promote green finance policies, lawmakers have warned in a new report.

A "stop start" approach by the government of maintaining its climate transition ambitions while delaying policy initiatives is giving a mixed message for the financial sector that could slow the transition to net-zero, Parliament's Environmental Audit Committee said.

"Globally, banks continue to pump trillions of dollars into fossil fuels, and simply put, we are not turning the dial fast enough to tackle the climate and nature crises," committee chair Philip Dunne said in outlining the premise of the report, titled "The Financial Sector and the UK's Net Zero Transition."

Initiatives flowing from the UK's hosting of the COP26 UN climate talks in 2021 should be being implemented with more determination, he said.

"At COP26, the government made ambitious commitments to make even greater progress in embedding climate and nature into financial decision making. The government should implement swiftly its initiatives on mandatory transition plans, a UK green taxonomy, and carbon leakage mitigation measures."

"Any delay is likely to send mixed messages to the financial sector that the UK is wavering on its ambitions, as set out at COP26, to become the first net zero-aligned financial center. The Government must turbocharge its efforts once again in green finance."

The committee's report recommends the government publish quarterly reports on its progress towards energy independence and set up an independent body to track net-zero and nature-related financial flows and investments in high-carbon projects.

Mandatory reporting of climate transition plans should remain the government's ultimate aim, the committee recommended, urging it phase in regulations and monitor them over time and set out simple and consistent regulatory expectations for net-zero transition plans.

Overreliance on market mechanisms and shifting the onus to the private sector is not enough to achieve ambitious commitments of prioritizing investment in low carbon industries made at the COP26, the committee said in its report.

"The government's 'comply or explain' approach to mandatory transition planning by companies is defeating the purpose of the policy, as a company has the option to meet the requirements or disclose that it does not have a plan," the committee said, calling for a robust framework and continued leadership from the government.

The notion of "energy security" should increasingly shift towards renewable energy, which can support greater energy independence and reduce reliance on fossil fuels, the committee recommended.

"Witnesses told the committee that the same can be said of fossil fuels seemingly being prioritized in the name of energy security since Russia's invasion of Ukraine," the committee said.

The UK holds a leading position in transition planning, and London is the top financial center for commitments to environmental improvements in finance and across the wider economy, the committee observed, stressing that this position must be maintained.

Please e-mail editors@mlex.com to contact the editorial staff regarding this story or to submit the names of lawyers and advisers.

Related Portfolio(s):

[Energy & Climate - UN Framework Convention on Climate Change - COP26 \(Global\)](#)

[Financial Services - Regulation - Sustainable finance \(UK\)](#)

Areas of Interest: Sector Regulation

Industries: Banking & Finance, Coal Industry, Energy & Utilities, Environmental Industry, Oil & Gas Industry

Geographies: Europe, Northern Europe, United Kingdom

Topics:

Bank capital

Bank supervision

Brexit

Carbon Border Mechanism

Carbon Pricing

Carbon tax

Clearinghouses

Climate neutrality

Climate reporting

Corporate reporting

Cryptoassets

Emissions

Energy transition

Equivalence

Green Deal

Greenwashing

Macroprudential standards

Market abuse

Sustainable finance