

Government publishes Net Zero Review

AT A GLANCE

January 2023

What's new?

- Chris Skidmore MP was commissioned to review the Government's approach to delivering its net zero target in September 2022, and published his [Net Zero Review](#) on 13 January 2023.
- The Review sets out the opportunities presented by the transition to net zero and provides recommendations to the Government and industry aimed at seizing those opportunities, including through green finance regulation.

What does this mean?

- The Net Zero Review is split into two parts, with the first exploring net zero opportunities and the second setting out how Government and industry can better exploit those opportunities.
- The Review makes recommendations on several issues, including: greener buildings; emerging net zero technologies, net zero investment; promoting net zero internationally and at home; and green finance regulation.
- The recommendations on green finance regulation aim to ensure regulatory certainty, clarity, continuity and consistency to galvanise momentum and facilitate capital allocation to support the UK's net zero ambitions.
- The key recommendations on green finance regulation are that the Government should take the following actions:
 - (1) Set out a clear, robust and ambitious approach to disclosure, standard setting, and scaling up green finance in its update to the Green Finance Strategy (GFS).
 - (2) Endorse and implement the International Sustainability Standards Board (ISSB) standards as soon as possible, introducing regulatory requirements for the 2024/25 reporting cycle (while encouraging voluntary reporting in the 2023/24 cycle).
 - (3) Continue work on transition plan disclosures, led by the UK Transition Plan Taskforce (TPT), and make disclosures mandatory for both listed and private companies. This should include small and medium-sized enterprises for whom requirements may need to be tailored to minimise reporting burdens.
 - (4) Implement a coherent green taxonomy at the earliest possibility and consider the appropriateness of a transition taxonomy to facilitate investment in transitional economic activities.
 - (5) Extend the FCA's proposed sustainable labelling system for investment products to overseas and pension products, and consider how the regime can be applied more broadly to combat greenwashing, for example, in relation to sustainability-linked bonds and loans.
 - (6) Update the Stewardship Code as part of the Financial Reporting Council (FRC) review in 2023 to explicitly reflect the need to take sustainability and the transition into account.
 - (7) Consider how to make the UK the most competitive financial centre for green and transition listings, capital raising and project financing, including through changes to the prospectus and listing regimes.

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(8) Consider how the regulatory framework should develop to encompass nature.

- The Review also recommends establishing a new forum to coordinate the signalling by regulators to industry on the net zero transition, including Ofwat, Ofgem, HSE, Environment Agency, Competition and Markets Authority, FCA, and the North Sea Transition Authority.
- Skidmore also suggests the Government should more closely engage with the industry to define their data needs, including in relation to supply chain emissions, and develop solutions to those needs.

What do firms need to do?

- The recommendations in the Review, which were informed by extensive industry engagement, could shape the Government's priorities for green finance regulation.
 - The recommendation to implement the ISSB standards as soon as possible could help to ensure the Government maintains momentum on the commitments and timelines it set out in its [Roadmap to Sustainable Investing](#) (published in October 2021). In light of those commitments, firms should monitor development of the ISSB standards and take steps to ensure they are prepared for UK implementation, noting that publication of the standards was initially due by the end of 2022 and is now expected this year.
 - Firms should take note of the recommendations on transition plan disclosure requirements which build on the Government's commitment to move
- towards making transition plan disclosures mandatory. As the Government intends to use the outputs from the TPT as a basis for its regulatory requirements, firms should review the TPT's [draft sector-neutral Disclosure Framework and Implementation Guidance](#) to inform their thinking on how best to integrate transition planning across their business and reporting processes.
 - The taxonomy recommendations send a strong signal to Government to progress its work in this area. They indicate appetite for broadening coverage of the UK Taxonomy beyond that of the EU Taxonomy to account for transition activities. Firms should look out for developments on the UK Taxonomy, including in the GFS update, and [publications from the Green Technical Advisory Group](#).
 - Firms should expect a greater regulatory focus on nature going forward. In particular, they should pay close attention to the work of the Taskforce on Nature-related Financial Disclosures, which is expected to feed into the ISSB standards as they build out from climate.
 - Firms should consider how their stewardship activities take sustainability into account, and how this might be demonstrated if the Stewardship Code is revised following the 2023 review by the FRC.
 - The Government will likely set out its approach to several of the Review recommendations in its GFS update. Publication of the GFS has been delayed from its initial 2022 deadline and is now expected in early 2023.

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Next steps

The Government is expected to set out its approach to several of the recommendations in the GFS update. Publication of the GFS has been delayed and firms should expect updated timelines to be provided by the Government in due course.

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