PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCIAL SERVICES BILL

Fifth Sitting

Tuesday 24 November 2020

(Morning)

CONTENTS

PBC (Bill 200) 2019 - 2021

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 28 November 2020

The Committee consisted of the following Members:

Chairs: † Philip Davies, Dr Rupa Huq

† Baldwin, Harriett *(West Worcestershire)* (Con)
† Cates, Miriam *(Penistone and Stocksbridge)* (Con)
† Creasy, Stella *(Walthamstow)* (Lab/Co-op)
† Davies, Gareth *(Grantham and Stamford)* (Con)
† Eagle, Ms Angela *(Wallasey)* (Lab)
Flynn, Stephen *(Aberdeen South)* (SNP)
† Glen, John *(Economic Secretary to the Treasury)*
† Jones, Andrew *(Harrogate and Knaresborough)* (Con)
† McFadden, Mr Pat *(Wolverhampton South East)* (Lab)
† Marson, Julie *(Hertford and Stortford)* (Con)
† Millar, Robin *(Aberconwy)* (Con)
† Oppong-Asare, Abena *(Erith and Thamesmead)* (Lab)
† Richardson, Angela *(Guildford)* (Con)
† Rutley, David *(Lord Commissioner of Her Majesty's Treasury)*
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Williams, Craig *(Montgomeryshire)* (Con)

Kevin Maddison; Nicholas Taylor, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 24 November 2020

(Morning)

[PHILIP DAVIES *in the Chair*]

Financial Services Bill

9.25 am

The Chair: Before we begin, I have a few preliminary points to make, some of which you will have heard before. Please switch electronic devices to silent; tea and coffee are not allowed during sittings and, again, I remind everyone about the importance of social distancing and thank you all for complying with that. The *Hansard* reporters would be grateful if Members could email any electronic copies of their speaking notes to hansardnotes@parliament.uk.

Today, we begin line-by-line consideration of the Bill. The selection list for today's sitting is available in the room and shows how the selected amendments have been grouped together for debate. Amendments grouped together are generally taken on the same or a similar issue, and decisions on amendments do not take place in the order they are debated, but in the order they appear on the amendment paper. The selection and grouping list shows the order of debates; decisions on each amendment are taken when we come to the clause that the amendment affects.

If a Member wishes to press to a Division an amendment that is not the lead amendment in a group, it would be helpful to indicate that in advance. I will use my discretion to decide whether to allow a separate stand part debate on individual clauses and schedules, following the debates on the relevant amendments. We start with clause 1 and amendment 19.

Clause 1

EXCLUSION OF CERTAIN INVESTMENT FIRMS FROM THE CAPITAL REQUIREMENTS REGULATION

Mr Pat McFadden (Wolverhampton South East) (Lab): I beg to move amendment 19, in clause 1, page 2, line 21, at end insert—

"(7A) The Secretary of State must, within three years of this Act being passed, prepare, publish and lay before Parliament a report on the impact of the amendments to the Capital Requirements Regulation made by this section and Schedule 1 to this Act.

(7B) The report must assess the impact on—

(a) financial stability;

(b) competitiveness; and

(c) consumer risk."

This amendment would ensure that, where departures from current capital requirements take place, the Government carries out a review of the impact on competitiveness and consumer risk.

Thank you for your chairmanship today, Mr Davies. With your indulgence, I would like to explain to the Minister broadly the approach we are going to take with these amendments. A number will be about reviewing, producing reports, parliamentary accountability and so on. Another number get into the accountability framework for the regulators and that "have regard to" list, and we will want to explore that quite deeply. Then there will be another set around the later parts of the Bill, relating to the savings provisions, the debt scheme and so on. That might help the Minister and the Committee to understand broadly where we are coming from when we move these amendments.

This first amendment, amendment 19 to clause 1, is in the first of those groups. Clause 1 exempts certain categories of investment firms from the requirements of the capital requirements regulation. This amendment explores what the effect of that might be and not only our right to know that effect, but our obligation to understand it. The reason we tabled this amendment is that capital, or the lack of it, was at the heart of the financial crisis. The banks that keeled over were over-leveraged and behaved as though a rainy day would never come. In fact, it is estimated that when the financial crisis hit, Royal Bank of Scotland, which was one of the biggest banks in the world at the time, was leveraged to a degree of about 50:1, so they had very little cushion of resilience for when more troubled times came.

The Basel II rules, which were in place at the time, failed to stop either the collapse or the public's having to step in—through taxpayers and Governments around the world—to bail out the sector. Last week, when we were taking oral evidence on the Bill, I quoted Paul Volcker, the former Chairman of the Federal Reserve, who gave evidence in this House about a senior banker who had told him that his bank did not need any capital at all, that money could always be borrowed on the wholesale markets and that the banks could operate without capital. The crash proved that not to be true. The banks need capital. They need a cushion. That is not just their insurance policy, it is ours—it is the public's insurance policy too.

Following the crash, the world's regulators, whether in the United States, the UK or the European Union, set out to solve the problem of "too big to fail", which has been characterised as privatising the profits and nationalising the risks, and developed a new set of capital requirements for banks and financial institutions. It was designed to make them more resistant to downturns. Those rules, on a global level, are set out in the Basel III process, now revised to the Basel 3.1 process, in the CRR and in the actions of national regulators. That is important, because the Basel rules should not be regarded as a maximum when it comes to the safety of our financial institutions. They should be regarded as a floor.

Most banks and regulators will say that today they hold significantly more capital against their loan books and that they are better equipped to handle a downturn or economic shock than they were 12 years ago. That is broadly true. Banks are better capitalised now than they were. However, they do not all like that situation, in truth. They will also say—I am sure that some banks tell the Minister and the regulators—that if only they did not have to hold so much capital they could lend more. They may well be saying that more loudly during the covid situation, when, as we see light at the end of the tunnel, we want to get the economy moving again. The smaller banks and new entrants will complain about being held to the same capital rules as larger and more established institutions. They will argue that that is a barrier to market entry and that it acts to reinforce the oligopoly in the UK where there are four or five major high street institutions, which it is difficult for new entrants to compete against. Other institutions will complain of being held to the same rules as deposit-taking institutions, which is part of the exemptions in clause 1, arguing that the character of their business is different.

Clause 1, as I have said, equips the regulator to respond to some of those points. We are not only onshoring, as it were, the capital requirements regulation, we are making provision, through the clause and other subsequent clauses, for the regulators to depart from it. Of course, departure from a common rulebook is a consequence of Brexit. Indeed, some might argue that it is the whole point. The clause allows it, and it is important that the Committee understands that the amendment would not prevent it. Neither does it seek to relitigate the referendum or to prevent the common rulebook to which we have subscribed for many years from ever being changed. That is not what the Opposition are saying. We are saying that, Brexit or not, and inside the EU or not, capital requirements still matter and they are there for a reason.

I would argue that for the UK the need for financial resilience is even greater than it is for most economies. We are a medium-sized economy with a huge financial sector. The consequences of that sector getting into deep trouble are potentially all the greater for our economy than for some others. Having a big financial sector is in many ways a great strength, of course. It brings employment, tax revenue and investment to the country, but it is a risk when it gets into trouble, as we found out in our recent history.

The other thing that we learned during the crash was how interconnected the system was. With so many institutions lending to and trading with one another, when one falls over the consequences for the whole system can be catastrophic. That old saying "The thigh bone's connected to the knee bone" was certainly true during the financial crash, as it is of our interlocked and interdependent financial system. We therefore have a duty, at the very least, to be vigilant about capital requirements. They are, as I said, the public's insurance policy against having to bear the costs of another crash or steep financial crisis. The changes that have been made since 2007 and 2008 through the CRR, the Basel rules and other steps are, as yet, untested. Yes, the regulators do conduct stress tests and scenarios about what would happen if employment rose to this level or GDP fell to that level, but these are inevitably not quite real-world exercises. They are as real as war games compared to the real thing.

All the amendment does is ask for a report from the Treasury after three years of the new regime. That report should cover the impact of any departure from the current capital requirements in three areas: financial stability, that is to say the overall health of the system, because we learned how interconnected it all was; competitiveness, which is built into the regulator's aims in the Bill and is bound to be the argument for any changes to the capital requirement rules; and, importantly, consumer risk. If we are only thinking about the competitiveness of our financial institutions and not considering consumer risk, we have not learned from the financial crisis. That is the other side of the scales. We can make the system ultra-competitive by asking institutions to hold hardly any capital but that exposes the consumers and public to greater economic risk. That last point is crucial.

To recap, the amendment does not attempt to freeze the situation forever as it is now. It does not stop clause 1 doing what the Government want it to do. It does ask for a report on the consequences and broader issue of divergence from capital rules, should the regulator allow greater divergence in the future. We should not allow this regime to be set up and then opened up to all the banking and industry lobbying that is likely to take place without making sure we have a means of understanding the consequences of that. Given the importance of this sector for the UK economy, we should be careful of these consequences. By enshrining these in a report from the Treasury, we can ensure that Parliament and the public see the consequences of divergence. That is the purpose of amendment 19.

Alison Thewliss (Glasgow Central) (SNP): It is a pleasure to see you in the Chair, Mr Davies. I rise to support the amendment. I think it is perfectly sensible that we make assessments and ensure that the changes the Government are putting in place are worth while and valid and that we keep a close eye on them, because of the very risks that the Labour Front-Bench spokesman set out. We cannot predict the future, but we can assess how things are going and make sure that neither consumers nor businesses are at risk. I support that very much and do not have much to add to his comprehensive speech.

Ms Angela Eagle (Wallasey) (Lab): I repeat that is a pleasure to see you in the Chair today, Mr Davies—there will be a bit more of that as we make our way through the Bill. I support my right hon. Friend's amendment, and want to tease out some of the Government's intentions in this very technical Bill. We may not have known before 2008, but certainly know now, that highly technical things can be crashingly important if we do not keep a close eye on them. Given that we are now onshoring all these directives, and that the Government have decided, before the transition period is even over, in anticipation of changes to the capital requirements regimes, to diverge from what was put into UK law as part of the withdrawal agreement, I think the Minister owes us—I am sure he will be prepared to do this—a detailed explanation of what the Government perceive to be the advantages of diverging from rules that we had such a crucial part in writing when we were in the European Union.

It was certainly the case when I was a Minister, and I am sure it still is, that because of the relative size and importance of the financial services industry in the UK, our technocrats, if I can call them that, were always very involved in drawing up and agreeing the financial service directives that were in effect in the whole of the European Union. We used to have quite vigorous arguments with the European Union about the nature of some of that, given the slightly different culture that we have in the Anglo-Saxon world, if I can put it that way—the Minister knows what I mean—compared with some things that more routinely happen in the EU, and also because, frankly, our financial services sector is far larger than most financial services sectors within the EU and differs in its make-up. There were always these cultural issues.

However, in the aftermath of the financial crisis, there was widespread recognition and agreement—not only in the Basel III and 3.1 regulatory negotiations and how those agreements were put into EU law, which we are talking about now—about what had gone wrong;

[Ms Angela Eagle]

about needing to identify systemically important companies and make sure they were regulated appropriately, given the risk that under-capitalisation posed to the economies of countries in which those organisations were based; and about having rigorous and intrusive regulation to avoid some of the mistakes and traps that were fallen into in the run-up to 2008.

I am particularly interested in—I hope the Minister will explain it—how this will work, given that the Bill gives our regulators the power to change what has just been onshored to create a completely different system for investment firms, and then to take that forward in future regulation. We know that we have to be eternally vigilant to the way that companies evolve to respond to regulatory systems. If we end up fighting the previous battle, we will probably miss the next bubble. I would therefore appreciate it if the Minister—in commenting on the amendment, which is probing, in that sense—will explain how he believes that the regime that the Bill introduces will be able to respond to the challenges of the evolution of threats. Once the nature of what had been going on during the financial crisis was laid bare—a lot of it had been going on under the radar—one of the surprises was the connection between investment companies and banks, particularly the investment arms of banks. We discovered their trading of derivatives and the leverage they got out of those derivatives to make more money for themselves, more commission and more remuneration. Actually, a lot of what was in those derivatives was not sighted, and the regulation had essentially involved taking on trust the rating agencies' assessments of what those derivatives were worth, without looking inside the packages.

9.45 am

There are many slightly different ways in which a similar problem could occur with investment companies. When the Minister replies to the debate, could he set out how he believes the Financial Conduct Authority and the regulatory authorities will keep an eye on that, if we are going to make it easier, as I believe the Bill does, for investment companies to pull away from the regulations that the CRR and the directive have imposed on banks?

I accept the argument that investment companies are not deposit-taking institutions and so we will not see a run on them, but there are equivalent runs on those companies when their credit freezes. We saw that happen in more than one example during the financial crisis, and we also saw many banks dragged to the edge, and potentially over it into insolvency, by the activities of their investment arms. I want some reassurance about how such interconnections, often not fully visible, can be properly tracked if we are loosening the regulatory requirements on investment bodies.

I remember talking to the Governor of the Bank of England about how deep and liquid the credit market was shortly before the whole thing froze. There is a lot going on below the surface that is not always obvious, including connections between institutions in terms of some of the assets they hold. Everyone missed that during the crisis, but there will be other new things that the Minister and I have probably not thought of that those institutions will be doing even as I speak. I hope that the regulators will know about that; otherwise we are in for some even more exciting times than we have had this year. I want reassurance that the proposed loosening, change and divergence that this Bill allows for does not prove less effective than the regime that we helped to design, and which we are now leaving behind.

Can the Minister share with the Committee some of the benefits that that divergence will deliver for the country? We know from 2008 what the risks can be, and that is why the amendment is so important, because it asks for an impact assessment to be made public of the effect of the changes that this Bill, were it put on the statute book, would introduce. It is only worth introducing change and diverging from what is generally judged to be state-of-the-art, good, high-standard regulation if we get some benefit from that. Perhaps the Minister could outline what he believes that benefit to be.

In common with my right hon. Friend the Member for Wolverhampton South East, who speaks from the Opposition Front Bench, I worry about just using competitiveness as the reason for fewer regulations. We have been there and seen the damage that can be done if competitiveness runs away with itself. Can the Minister say a bit more about competitiveness, and how he thinks that the proposed regime will benefit those who seek to ply their investment trade in this jurisdiction, as opposed to that of the EU or others around the world? Risks may have to be balanced, and I would like an understanding of them.

In line with what my right hon. Friend said, we must not forget the consumer interest. It is not often mentioned in the fog and the forest of regulation, but if money is being taken out of the system by middlemen and remuneration systems that incentivise the wrong behaviour, the people who suffer—first and foremost and always—are the consumers and customers of these institutions. If it is systemic and goes badly wrong, we all suffer as a result. I would like some information from the Minister about the benefits and the potential risks that we are running in introducing this regime.

There is a final area I would like to ask the Minister about. The three pillars, I think, of investment company will be regulated differently. I am sorry; I meant classes, not pillars. I am all over the place at the moment with Test and Trace and all sorts, so I often get my pillars and classes mixed up. Class 1 investment companies are the systemically important ones: if they go belly up, we have a big problem. Class 2 is slightly lower, and class 3 is much smaller. Clearly, if regulations are proportionate, it makes a lot of sense not to regulate the class 3 ones as if they were systemic.

I am interested in a couple of points. First, has the Minister thought about the dynamics of how the class system might change? How does a firm get from class 2 to class 1? Is the Minister introducing incentives to make it harder for firms to grow because they become systemic? Should we be worried about potential cliff edges? Secondly, if something below a systemic element is not systemic—which by definition has much lower levels of oversight and regulation—there is an incentive for companies to remain in class 2 rather than go up to class 3. Has the Minister thought about that? How will the FCA deal with that if there are situations with companies that might be on the edge in a dynamic situation?

Those are just a few observations about our amendment. I would like some insight from the Minister over and above the rather dry descriptions in the notes about how they foresee the system working.

The Economic Secretary to the Treasury (John Glen): I would like to take this opportunity, at the beginning of the Committee scrutiny stage, to say what a pleasure it is to serve under your chairmanship, Mr Davies, and to consider this important legislation with all Committee members. I welcome the opening comments of the right hon. Member for Wolverhampton South East, who described how the Opposition will approach the eight sittings over the next two weeks. I also broadly acknowledge and agree with virtually all of the comments that he and the hon. Member for Wallasey made in respect of the history of financial services regulation, and I look forward to responding to the points made and to a wide-ranging and constructive discussion over the next two weeks.

As I set out on Second Reading, this Bill forms an important part of the Government's wider strategy for financial services at this critical moment, as we approach the end of the transition period. I just want to say at the outset that financial services, as some of us know—I look particularly to the hon. Member for Glasgow Central who has been in multiple Committees with me over the last three years—is necessarily a complex topic with a sometimes impenetrable vocabulary of its own. I will do my utmost to ensure that, in speaking to the Bill and any Government amendments, my comments are as clear, accessible and accurate as possible. Please feel free to challenge me on this and if at any point Committee members feel that I have fallen short of that ambition, I look forward to trying to correct that.

Let me move to amendment 19. The Government are fully committed to ensuring that any delegation of responsibility to the regulators is accompanied by robust accountability and scrutiny mechanisms. Members referred to divergence and regard to consumer interests. The differentiation between different categories of firms depends on an assessment of eight systemically important firms that will continue to be the responsibility of the Prudential Regulation Authority. Amendment 19 seeks to add a requirement for the Secretary of State to publish a report within three years of this Act, including an assessment of the impact of amendments to the capital requirements regulation on financial stability, competitiveness and consumer risk.

The amendments to the capital requirements regulation tell only a small part of the story. The Bill amends the capital requirements regulation to remove Financial Conduct Authority investment firms from the scope of the banking regime. The more important story will be told by the FCA's rules that implement the investment firms prudential regime. I want to be absolutely clear on the point about divergence. Obviously, as we get towards the end of the transition period, we will get to a point where we have left the EU and the provisions of alignment within the transition period. Therefore these measures reflect the reality of where we will be on 1 January. As the hon. Member for Wallasey said, the UK's regulators, Ministers and officials played an instrumental role, given the size of the UK financial services industry, in shaping those regulations on an EU-wide basis. But it is surely only appropriate that, when we have left the alignment provisions of the transition period—and rightly so—we should look to actually govern and set the regulatory environment that suits the particular needs of our industry. The configuration of that industry, as was understood in the speeches that have been made, is different.

When the FCA does implement the IFPR, the Bill requires the FCA to demonstrate how it has regard to several considerations, which I shall set out now. First it must have regard to relevant international standards: Basel 3.1. That goes to the point about the relative standing of the UK. The right hon. Member for Wolverhampton South East made a point about the risk around individual firms lobbying for differentiated treatment. It is right that the regulators are responsive to the needs of the UK industry, but they are also accountable to those international standards—the relative standing of the UK—in addition to the current statutory objectives under the Financial Services and Markets Act 2000 to protect consumers and the integrity of the UK financial system.

This approach aligns with the March 2020 House of Lords EU Financial Affairs Sub-Committee recommendation to delegate more power to the regulators, underpinned by more and strengthened parliamentary scrutiny. We are delegating this to regulators because they have the technical expertise, not the Government. The Bill's reporting provisions should provide the information that Parliament is seeking. This amendment would create a duplication of efforts by the regulator and the relevant Departments on undertaking such an assessment.

10 am

I recognise that some points were made about, and the hon. Member for Wallasey in particular asked me to respond on, the relationship in terms of moving between different categories of firms. I think it absolutely necessary that we essentially, through this provision, right-size the regulation for the different configurations of firms. I also think this right in an environment where, in general in the UK, we have had standardised models of capital requirements. One of the key arguments with respect to banks, for example, is that there has not been meaningful competition because those capital requirements are too rigid. I will draw attention to the Committee's experience last week with Gurpreet Manku from the British Private Equity and Venture Capital Association, who, when asked about the levels of capital required, said that in some cases higher levels of capital would need to be held. I think that that recognises that what we are doing here is actually seeking to empower the regulators to right-size the regulation, having regard to international standards but also fixing it appropriately for the UK regime.

I do not see that this amendment delivers over and above the accountability and scrutiny mechanisms already in the Bill, which already find the right balance in relation to parliamentary scrutiny and regulator accountability. Therefore, I ask that the amendment be withdrawn.

Ms Eagle: I want to come back on that and press the Minister on a couple of questions that, with all due respect, I do not think he answered in his response. Clearly, our amendment is a hook on which to hang a debate about transparency, so that we know what the regulators are doing, and about accountability, because, as I said earlier, if these organisations begin to respond

[Ms Angela Eagle]

to particular inducements, such as their own remuneration, they can cause risk to happen in a way that can be severely detrimental to consumers and entire economies, as we have seen in recent history. I think that, in the light of that, we are perhaps owed a little more of an explanation from the Minister—I am putting this gently—about what the approach of the regulators will be. The Minister can stand there and say, "The regulators are going to right-size regulation." That sounds like a fantastic thing because of the very phrase that the Minister has used—"right-size"—but how are they deciding?

We clearly got the wrong size because of evolutionary behaviour to avoid regulation and increasingly risky behaviour in the global financial system in the run-up to the global financial crisis in 2008, which was caused by or began in the subprime mortgage market in America but which brought most of the—if I can put it this way—western-style banking systems close to ruin in the rest of the very interconnected economy because of what had been happening with derivatives. Therefore I wonder whether the Minister might be able to say a little more about the benefits of having the regime that he called right-sized regulation; why we might wish to move away from the current position so quickly after the transition period is over; and what he sees as the benefits of doing this. Refusing our amendment means that there will be no transparent analysis of the effect on the public domain, so we will not be able to discuss it.

I for one think it is important to get these very technical, dry regulations out into the open and to translate them, with the seriousness they deserve, into the potential implications that they present for all our constituents. Our amendment seeks to do that by at least having a transparent publication of these kinds of analyses. The Minister wants to keep it in the regulators' ambit, in which there is not so much light, to be honest. It is highly technical, and it is hard for those on the outside to have a look inside to see what the implications are. I have hardly had any correspondence from outsiders on the Bill to help me through the long hours and sittings to come. That rather illustrates my point: that a light needs to be shone on this area, because of the risks if we get it wrong.

The Minister rightly wants to get it right, but surely it is relevant to hear from him and to have a bit of transparency, and to put something on the record now about how he sees the advantages playing out, as opposed to the risks. Will he have another go?

John Glen: I am very happy to have another go. The hon. Lady is at risk of suggesting that there is somehow a clumsy, rushed delegation to regulators and a risk that—in that delegation—the industry will influence regulators to right-size in a way that damages consumers. I draw her attention to the fact that the legislation gives the FCA responsibility to have regard to the impact on consumers, on the market and on firms—that is, the impact on themselves—of not having the appropriate capital requirements.

The right-sizing comment refers to the fact that the firms are currently bound by rules that align them to other institutions that are clearly functionally different. Nobody really believes that it would be right for there to be a prescriptive mandate from primary legislation on exactly how those technical rules and those capital requirements on a firm-by-firm basis should exist. The FCA has the right to reclassify firms and monitor that reclassification as firms evolve. The PRA will retain oversight of systemically important firms.

I contend that the Bill contains sufficient mechanisms to ensure public and parliamentary scrutiny of both the FCA and the Treasury through the draft affirmative procedure and the FCA reporting requirements. That combination of the FCA's existing statutory duties and the "have regards" set out in the Bill cover the areas that amendment 19 seeks to address.

I make one further important point that goes to the heart of the wider regulatory framework. The future regulatory framework consultation that we launched on 19 October sets out over a 12-week period to look holistically at what should be the constitutional relationship between the FCA, the PRA, the Treasury and Parliament to embed an enduring accountability framework on a much broader basis. There will be another consultation subsequent to that. I anticipate that the response to the consultation might be, "Why haven't you done this before?". The bottom line is that the measures are required to meet international standards within an internationally determined timeframe of expectations. I declared on Second Reading that this is the first in a series of pieces of legislation, and I have always said so. This first piece of legislation sets the accountability framework for the initial measures.

Stella Creasy (Walthamstow) (Lab/Co-op): I do not think any of us doubt the Minister's intention to get this right and to recognise that these decisions have a consumer impact. The challenge, which I think we all see, is that it is one thing for the FCA to conduct a public consultation on high-cost credit firms, for example—he knows my specialist subject—but on something like LIBOR or the Basel regulations, which is less tangible but no less impactful, the argument he is making seems rather to strengthen the point the amendment makes about including consumer risk as one of the things to be reported on, because it does not immediately grasp people's imagination until a catastrophe such as the last financial crisis happens. He says he envisages the FCA's performing this role, so will he set out how he sees it performing that role if we do not say, "Actually, could we in a couple of years' time get some information on how consumer risk has been identified and addressed in this process?". That is harder to quantify, but no less important.

John Glen: I am very happy to respond to that point and I thank the hon. Lady for her comments. I recognise her expertise, particularly on high-cost credit, and I look forward to—I imagine—further amendments on that, perhaps next week.

The FCA will be required to publish an explanation of how having regard to the additional considerations that I have set out has affected the proposed rules that it comes up with. When the FCA makes those final rules, it will publish an explanation complying with them, as well as a summary of those new rules, aligned to the FSMA publication requirements.

The challenge here is a bit of a mismatch between the concerns that we have collectively in Parliament to maintain standards that will not allow a repeat of what the right hon. Member for Wolverhampton South East eloquently set out as the problem leading up to 2008 and to have regard to the enduring and ever-transforming consumer risks, which derive from rules and technical standards that we in this place are not well placed to deliver, given their design. What we must do subsequently with the future regulatory framework review—it is not some short, rushed exercise, but a deliberately open exercise of consultation to try to examine best practices—is to come up with something that gets that balance right between the direction that Parliament sets in primary legislation and the accountability to this place that will exist for our regulators, through the Treasury Committee and through potentially significantly enhanced accountability mechanisms.

However, setting out the enduring final framework of that relationship between the regulators and Parliament is the point of that consultation exercise. With respect to this measure, I believe that the accountability mechanisms set within it and the procedures set out will achieve the accountability that is necessary and appropriate at this stage.

The Chair: Before I call the shadow Minister, I say that one of his many qualities is that he is very softly spoken, which is not conducive to Committee Room 14 with social distancing in place, so I encourage him to speak up; I am sure that would be appreciated by all.

Mr McFadden: I am a softly spoken and moderate man; it has not always done me good, but I am on track here at the moment.

I want to respond to the Minister's reasons for advising us not to press the amendment. I talked at the beginning about three pots of amendments, and it strikes me that there are really two or three pots of reasons why Ministers say no to amendments. The first is that the amendment is wrong or not competently written in some way. Pot two is that it has completely misunderstood the Bill and therefore is not just incompetently written, but actually wrong in its intent. Pot three is to say that it is covered anyway. Usually, if somebody is not going to say yes to an amendment, it falls into one of those categories. The Minister has gone for pot three today. He has not really argued that the amendment is wrong in its content or that there is anything wrong with the way it is written; he has argued that this kind of thing is covered anyway. There is a problem for us in accepting that.

Ms Eagle: Does my right hon. Friend agree that there is a fourth one, which is to say, "This should not be on the face of the Bill; we are going to do it, but we are going to put it in secondary legislation," which of course is unamendable and usually rammed through this House in a way that makes scrutiny even harder?

Mr McFadden: My hon. Friend is absolutely right. Perhaps there is even a fifth one, which is, "Wait for the consultation on something else." The problem with going for pot three and saying the amendment is covered anyway is that that concedes that it would be completely harmless and there would be nothing wrong if it were accepted. The Government are, in effect, agreeing with its intent and saying they will do it.

10.15 am

The Minister, probably not for the last time, referred to the future regulatory framework consultation that was published a month ago and said, "We will cover a lot of this in there." I have had the pleasure of going through that document—I was looking longingly as I did so at Tim Bouverie's excellent book on appeasement on my bedside table and resisting the urge to pick it up—but we do not know its conclusions. He might turn out to be right and we might have something similar, but we might not.

More seriously, the reason why we need such a report and why we need to be careful about what is in the clause—we may come to this in the stand part debate—is that although investment firms, which do not take deposits, may be characterised in some ways as different from deposit-taking banks, we learned during the financial crash about the degree of interconnectedness. Frankly, if the system falls over, no one will care about that—it will not matter at all. When the system is so connected, it will not matter that one company, metaphorically speaking, put its hand up and said, "We wanted to be treated differently because we did not take deposits."

That brings us back to the consumer, who has to know that the system as a whole is safe—or as safe as can be expected. I find myself unconvinced by the reasons not to accept the amendment, so I am minded to press it.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 10.

Division No. 1]

AYES

Creasy, Stella
Eagle, Ms Angela
McFadden, rh Mr Pat
Oppong-Asare, Abena
Smith, Jeff
Thewliss, Alison

NOES

Baldwin, Harriett
Cates, Miriam
Davies, Gareth
Glen, John
Jones, Andrew
Marson, Julie
Millar, Robin
Richardson, Angela
Rutley, David
Williams, Craig

Question accordingly negatived.

Question proposed, That the clause stand part of the Bill.

John Glen: As ever, the UK remains committed to the highest level of regulatory standards. The UK is also committed to better regulation—regulation that is fit for purpose and appropriate to the risks, size and activities inherent to UK firms. At present, investment firms are supervised by either the FCA or—for those that are systemically important—the PRA. However, both currently operate under the same prudential regulatory regime as banks, which is not appropriate for non-systemically important investment firms. Such investment firms do not typically grant loans or accept deposits, so the risks they face and pose are different from those of banks.

A new, bespoke regime is required for investment firms, and the first step in that process is to remove non-systemically important FCA investment firms from the relevant regulations for banks. That is precisely what clause 1 does: it sets out the necessary amendments to remove FCA investment firms from the scope of the capital requirements regulation. Only credit institutions and PRA-designated investment firms will remain under

[John Glen]

the CRR. That is appropriate, as systemic investment firms pose similar risks to financial stability as the largest banks.

Clause 1 also introduces a definition of "designated investment firm" that recognises that only investment firms that conduct bank-like investment activities may be designated by the PRA as systemic institutions. As such, commodity dealers, collective investment undertakings and insurance undertakings that are not bank-like are excluded from the definition. That reflects the EU's approach. The remaining investment firms—all FCA investment firms—will be regulated under the new investment firms prudential regime, which I will turn to when we debate clause 2 and schedule 2.

Clause 1 also amends the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The amendments are necessary to ensure that FCA investment firms adhere to tax reporting requirements that are consistent with the new investment firms prudential regime, and not with the current banking regime. For example, the smallest FCA investment firms will be exempt from the reporting requirements, which is in line with the IFPR's more proportionate application of regulatory requirements on the smallest firms.

Clause 1 is merely a first step in the introduction of the investment firms prudential regime, but it is a crucial step. I therefore recommend that the clause stand part of the Bill.

Mr McFadden: I just have a couple of questions for the Minister. He described the rationale behind the clause, but can he tell us how many firms we are talking about? How many of the non-deposit-taking investment firms are likely to be exempt from the capital requirements regulations under the terms of the clause?

What is the Minister's response to the point that my hon. Friend the Member for Wallasey and I have been trying to make about interconnectedness? He has advanced a reason as to why such investment firms should be treated differently, but how will the regulators cope with the interconnectedness of the system if companies are treated differently in that way?

Alison Thewliss: My concerns very much lie around the interconnectedness, because the system will be only as strong as the weakest part within it. If the weakest parts start to pull down everything else and make everything else unravel, we have a real problem on our hands.

My questions are about the monitoring of risk within the system that is being established. How can the Minister be certain that the risks are being closely monitored by the regulators, that the regulators understand the business that smaller firms are doing in their part of the market, and that the activities that those smaller firms are engaged in does not pose a risk to everything else? There is definitely cause for them to be monitored in order to have an eye kept on them, and to ensure that their activities do not cause wider risk. If attention is not being given to them, how can we ensure that their activities are above board and are not causing further risks anywhere else within the system?

How will the monitoring be scrutinised more widely by Parliament and others? The Treasury Committee gets the opportunity to question the regulators, but getting down to such a level of detail is not necessarily something that we would do. How does the Minister envisage Parliament having a role in that scrutiny in order to ensure that, should something happen or go wrong, we find out about it timeously rather than when it is too late to have any impact and when the whole thing has tumbled down?

Ms Eagle: Like the hon. Member for Glasgow Central, I am on the Treasury Committee. We have a very full programme. The hon. Member for Hertford and Stortford also shares the pleasures of being on the Treasury Committee. However, it would be very difficult for us to question the FCA with this level of granularity. Therefore, given the onshoring and the importance of this regime as it evolves, how does the Minister expect the transparency, oversight and accountability to be put in place going forward? Does he expect that to also include consumer authorities and the consumer interest, and will explain what he expects these companies to be able to do under this regime that they cannot do now?

John Glen: I am grateful for those questions, and I shall seek to bring some clarity. The right hon. Member for Wolverhampton South East asked me two questions about the numbers. I cannot give a specific number here, because it is fluid and would be something for the FCA to determine. I am sure the FCA would be very happy to give him an indication on that.

To the other point around interconnectedness, made by the hon. Member for Glasgow, Central as well, the classification will be based on the evolving nature of the activities, and this is something the FCA makes judgments on all the time. The PRA is responsible for eight systemically important institutions, covering Goldman Sachs and J. P. Morgan, among others, which are of a size and scale such that their interconnectedness means they are of systemic significance.

There are a lot of complex relationships between financial institutions. Therefore, as acknowledged by the hon. Member for Wallasey, as people who are technically capable of evaluating those interconnected elements, it is appropriate and in their interest to make those judgments, and that sort of decision making does go on currently.

The scrutiny process links back—I will not keep repeating it—to the point that the right hon. Gentleman made about the "Future Regulatory Framework Review", which will look at the appropriateness in a situation where that scrutiny has previously happened at an EU level, through combined conversations, the Council of Ministers, work that is then is auto-uploaded to the regulators. What is the new mechanism to hold regulators accountable in a situation where they are given the task from this place? That would be the purpose of the extended regulatory review and future legislation. It may involve an enhanced role for the Treasury Committee, with additional resources to augment the expertise that already exists, but that is a matter for that consultation.

In answer to the question from the hon. Member for Wallasey about what I expect the companies will be able to do that they currently cannot, this comes back to some of the evidence we heard last week from the British Private Equity and Venture Capital Association, which says there is a wide family of firms with different activities. The question is: are the regulations as they apply at the moment—as fitted for 28 countries, where obviously some compromises were made—appropriate for the configuration of firms as they exist?

What I would expect to see is consideration given for capital requirements that match the actual profile of activities, notwithstanding the very legitimate points made around the interconnectedness and the risks associated with their broadest activities. I have stressed throughout the passage of this Bill so far, and I reiterate now, that the essential purpose of the Government's approach is to ensure that we have the highest regulatory standards. Our reputation as a centre for financial services is based not on finding quick fixes that shortcut regulatory standards, but on finding something that fits the nature of our industry, aligned to international standards, that gives us the best opportunity to grow and prosper in a way that is safe and secure for consumers.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Schedule 1

EXCLUSION OF CERTAIN INVESTMENT FIRMS FROM THE CAPITAL REQUIREMENTS REGULATION: CONSEQUENTIAL AMENDMENTS

Question proposed, That the schedule be the First schedule to the Bill.

10.30 am

John Glen: Schedule 1 complements clause 1, in so far as it makes consequential amendments to the Capital Requirements Regulation 2013 and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. For example, many of these consequential amendments remove references to the Financial Conduct Authority as the competent authority under the CRR in recognition of the fact that henceforth only the Prudential Regulation Authority will be responsible for regulating credit institutions and PRA-designated investment firms under the CRR. Taken together, these technical amendments achieve the aim of removing FCA investment firms from banking rules while keeping the most systemically important investment firms under the regulation and supervision of the PRA. I therefore recommend that the schedule be accepted.

Mr McFadden: I have just one question. The Minister mentioned country-by-country reporting, which we may come to at other points in the debate. Could he help the Committee by telling us what is covered in the country-by-country reporting? There is an ongoing and very live debate about what we expect multinationals to cover in country-by-country reporting in order to avoid tax arbitrage or transfers between countries that do not stand up to scrutiny. What are the things covered by country-by-country reporting in schedule 1?

Alison Thewliss: I just want to ask the Minister about the additional responsibilities in the schedule. When we took evidence last week, Sheldon Mills said:

"We can always do with more resources".—[*Official Report, Financial Services Public Bill Committee,* 17 November 2020; c. 9, Q12.]

What further discussions has the Minister had about ensuring that the PRA and FCA are adequately resourced for these additional responsibilities? It is an awful lot of extra work. We are moving an awful lot of work over to them while they have covid and Brexit to look at too. I just wondered whether there had been any further detail about what additional resources might be available or required in the months and years ahead.

John Glen: I will come first, if I may, to the hon. Lady's point about the resourcing of the FCA. It is resourced by a levy, which it determines. It is under review, but it is approved and set by the FCA. The hon. Lady has asked that question a number of times over the past 18 months. She is right to draw attention to the enormous pressure that the FCA is under, in terms of giving guidance about the forbearance measures for consumers and banks. That will be a matter for the FCA. I have six-weekly conversations with its chief executive officer. That is not a matter that he has raised with me, but it will be under review. I support it in what it needs to do to secure those resources.

The right hon. Member for Wolverhampton South East asked about the Capital Requirements (Country-by-Country Reporting) Regulations. They were designed to ensure that appropriate tax reporting regulations are imposed on firms regulated under the banking framework. They require firms to report relevant information on tax and revenue in each country that it has operations. An objective of the IFPR is to make regulations for FCA investment firms more proportionate to the risk, size and activities of those firms. That will be reflected in the country-by-country reporting. That will enable certain investment firms, such as the smallest FCA investment firms, to have reporting requirements consistent with their size and activities, and ensures that such firms are competitive. Furthermore, the smallest investment firms do not typically have overseas operations, making these requirement irrelevant for them. I cannot say any more about that at this point, but I am happy to follow up further if the right hon. Gentleman wishes to have information.

Question put and agreed to.

Schedule 1 accordingly agreed to.

Clause 2

PRUDENTIAL REGULATION OF CERTAIN INVESTMENT FIRMS BY FCA RULES

Question proposed, That the clause stand part of the Bill.

John Glen: This short clause gives effect to schedule 2, which inserts provisions that will enable the introduction of an investment firm's prudential regime into the Financial Services and Markets Act 2000. I therefore recommend that it stand part of the Bill.

Mr McFadden: I do not really have substantial questions at this stage, because schedule 2 sets out the detail, and I think we will probably have an extensive debate on it.

Ms Eagle: The clause inserts a new part 9C into the Financial Services and Markets Act 2000, which forms the legal basis for the new regime that the Bill introduces for investment companies. We have been talking about the minimum amount of capital required. We have covered some of that, although we will get further into it when we come to the Basel 3.1 bits.

[Ms Angela Eagle]

Will the Minister say a bit about remuneration policies? That is another issue that will be regulated. We know from what happened in the financial crash and the build-up to that bubble that remuneration policies formed a key part of the bad incentives that created the behaviour that caused the crash. How will the Government be dealing with the regulators about remuneration? What will the principles be? Getting the right incentives for remuneration is a key driver for behaviour, and behaviour is a key driver for activities in that area, as we know only too well. If we did not know that from 2008, we would know it from the Wall Street crash in 1929. It is part of a set pattern. How will the Government ask the regulators to deal with that issue?

John Glen: I am happy to respond to that. The risk that the hon. Lady sets out—that, broadly, this country will go down a route where we deviate significantly from the new established norms of the regulation of remuneration and the rules around rewards and bonuses and so on—is a matter for which the regulator has responsibility. It will be incumbent on the Government to look at evolving best practice and the appropriate way to bring continuity to such regulations in line with those highest standards.

It is not our wish to create deviation for the sake of it. We will continue to look at the market situation. The point has been made already that we have to be alert to evolving new practices. In the same way, I think the hon. Lady would acknowledge that, in the light of the last crisis, there was an evolution in business models with respect to high-cost credit. There is always a risk in the sort of environment that we are in now that there will be new developments. I cannot prescribe precisely how we will look forward, but we will look to adhere to global high standards, because the integrity of our reputation relies on it.

Ms Eagle: I thank the Minister for his indulgence. Clause 2 is also partly about enforcing regulations; there are references to fraud and criminal offences, which again we will come to in more detail later. Will he let us know whether fraud enforcement will be beefed up? We can have a great regulatory regime and redefine fraudulent behaviour, but if enforcement is not up to scratch, that will not really deter. This is area where, if enforcement is too weak, the rewards are very high and the risk of being caught and prosecuted or fined is very low. Can he give some reassurance on that point at this stage?

John Glen: I am happy to. The hon. Lady makes a fair and reasonable point. We have to maintain the highest standards of regulation. The FCA and the PRA are extremely well respected globally, but that does not lead me as the Minister to be complacent. We must continually be vigilant about whether those standards of compliance and intervention into non-compliance are sufficient and adequate. We will always seek to maintain that.

To return to the principle, these capital requirements for firms are extremely detailed and technical. The regulators have the right expertise to update them. They will have increased responsibility, but they will need to consider the principles set out in the Bill. We are following the advice of the House of Lords Financial Affairs Sub-Committee, which said that these delegations would be appropriate. The broader conversation about the direction of travel around what sort of framework we wish to have in the UK is not fully addressed at this moment, but there will be more to say in the context of the response to the future regulatory framework two-stage review and the legislation we bring forward subsequently.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Schedule 2

PRUDENTIAL REGULATION OF FCA INVESTMENT FIRMS

Mr McFadden: I beg to move amendment 20, in schedule 2, page 63, line, at end insert—

"(ba) the target for net UK emissions of greenhouse gases in 2050 as set out in the Climate Change Act 2008 as amended by the Climate Change Act (2050 Target Amendment) Order 2019, and".

This amendment would require that, when making Part 9C rules, the FCA must have regard to the UK's net zero 2050 goal and the legislation that has been passed in pursuit of this goal.

The Chair: With this it will be convenient to discuss the following:

Amendment 39, in schedule 2, page 63, line 5, at end insert—

"(ba) the likely effect of the rules on the UK meeting its international and domestic commitments on tackling climate change, and".

This amendment would ensure the likely effect of the rules on the UK meeting its international and domestic commitments on tackling climate change are considered before Part 9C rules are taken.

Amendment 24, in schedule 3, page 79, line 29, at end insert—

"(ca) the target for UK emissions of greenhouse gases in 2050 as set out in the Climate Change Act 2008 as amended by the Climate Change Act (2050) Target Amendment Order 2019, and".

This amendment would require that, when making CRR rules, the FCA must have regard to the UK's 2050 net zero goals and the legislation underpinning those goals.

Amendment 42, in schedule 3, page 79, line 29, at end insert—

"(ca) the likely effect of the rules on the UK meeting its international and domestic commitments on tackling climate change, and".

This amendment would ensure the likely effect of the rules on the UK meeting its international and domestic commitments on tackling climate change are considered before CRR rules are taken.

Mr McFadden: Amendment 20 focuses on the new accountability framework for the FCA set out in schedule 2. If anyone wants to follow the detail, I am referring to the list at the top of page 63 of the current edition of the Bill. Returning to my opening remarks this morning, we tabled a similar—possibly identical—amendment to the accountability framework set out for the PRA in schedule 3, but we will come to that in due course.

As the Bill stands, the accountability framework in schedule 2 asks the FCA to have regard to three things: international standards, which I do not think anyone would argue with; the relative standing of the UK as a place to do financial business, which can be interpreted in a number of ways, but could be summed up as a competitiveness criterion; and other matters, which may be specified by the Treasury. I ask the Minister, why were those three picked out of all the things that we wanted the FCA to have to regard to in this brave new world, where we are onshoring all this, and not others?

We take the view that this list is incomplete and could be usefully added to. The regulators have an expanded new task, between schedule 2 and schedule 3, of regulating this huge, globally significant financial services industry with a lot of new powers, so what should they have regard to when they do this? There could be a number of things added to this "have regard to" list. Perhaps the most obvious is the UK's climate change goals, specifically the commitment to reach net zero emissions of all greenhouse gases by 2050.

Why do we want to add that in particular? There are several reasons. First, this is completely bipartisan. The Government are committed to it and the Opposition support it. It does not divide the parties in this House; it has multi-party support. Secondly, we are not asking for something that has not already been legislated for. It was legislated for on two important occasions in this House. We are not tacking on a new, previously undiscussed climate change commitment to the Bill. The legislative history of this, as hon. Members will know, is that the original goal of an 80% reduction in greenhouse gases by 2050 was legislated for in the Climate Change Act 2008 under the last Labour Government, which the Conservative Government changed to a commitment to net zero by 2050 through the 2019 order referred to in the amendment, so this has already been legislated for twice, once at 80% and now at net zero.

10.45 am

Thirdly, the commitment goes beyond international standards. The accountability framework references adhering to international standards, which is absolutely right. However, as I said when we were discussing the capital requirements previously, that does not mean that that is always what the UK should do. We have chosen as a country to commit to net zero by 2050, which goes beyond what we have to do under international standards. It is a specific UK goal, in line with our commitment under the Paris agreement of using the "highest possible ambition". Through that agreement, we will end our contribution to global warming.

Fourthly, the Chancellor has already signalled that he sees the financial services sector as playing a crucial role in achieving this target. In fact, he signalled that just two weeks ago when making a statement to the House on the future of financial services, saying that the UK will issue its first green gilt and that he wants to put

"the full weight of…capital behind the critical global effort to tackle climate change"—[*Official Report*, 9 November 2020; Vol. 683, c. 621.]

This is very much in line with what the Chancellor says he wants to do.

Stella Creasy: Is it not also important to recognise that some of the strongest drivers for reaching some of those emissions targets will come from the financial sector itself? For example, the move towards decarbonising pension funds has been hugely beneficial in promoting renewable energy. It makes sense to join the dots when it comes to our country's financial objectives and our wider social and climate objectives.

Mr McFadden: My hon. Friend is absolutely right. Joining the dots is exactly what we should do. Of course, she is right that individual investment firms will make their own decisions on these things, perhaps sometimes pressed by pension fund members, consumer groups or trustees in some ways. We applaud firms that do that, but how much more powerful would it be if that was a goal of the regulators, set out in our own financial services legislation? It would be more powerful, because the UK has this huge financial sector, which has around it this cluster of expertise, which we refer to a lot—legal and accountancy firms and all the rest—and because our own domestic commitments can bend the power of that sector towards the net zero goals.

The amendment goes with the grain of what more and more firms and people in this sector are talking about. By including this change, we can take all the fine-sounding commitments on corporate websites and put them at the heart of our regulatory mission. It can mark out the UK financial services regulation as having a new post-Brexit mission. If asked what we want the UK financial services sector to do in this post-Brexit world—we debated divergence and capital rules and all the rest earlier—what would be a better answer than making sure that the power of this is bent towards us achieving net zero, and in so doing encouraging financial sectors elsewhere in the world to go down the same path?

Finance will play a huge role in whether or not we meet the target. I do not propose, Mr Davies, to go through what the Committee on Climate Change has said that we need to do to reach the target in great detail, because we would be here all day, but I want to give the Committee an idea of a few headings that will require enormous investment.

If we are going to achieve the target, we will need a quadrupling of the supply of low carbon electricity. We have done well on low carbon electricity in the UK, in the last 20 years or so. We have vastly expanded the provision of renewables that go into the grid, but even after doing well we need to quadruple that if we are going to meet the target.

We will need a complete automotive transition, from internal combustion engines to electric or other zero emission vehicles. Just a few days ago, the Prime Minister himself announced a new, more advanced target for the phasing out of internal combustion engines.

There will need to be a huge programme of investment in buildings and heating. Whether that is through heat pumps or hydrogen boilers, there will need to be a huge programme of retrofitting equipment to millions of houses throughout the UK.

There will need to be a large programme of afforestation, because remember this is net zero. It will not be that we never have emissions, but we will have net zero. One of the main vehicles, if you like, in absorbing the emissions that we are still responsible for is afforestation, so we will need a huge programme.

We will need changes in farming and food production. We have the return of our old friend, carbon capture and storage. That takes me back, because a decade ago, when I was sitting where the Minister is now, we were

[Mr McFadden]

announcing carbon capture and storage. It was announced again last week. There might be Members here who are quite new to Parliament, such as my hon. Friend the Member for Erith and Thamesmead, the hon. Member for Hertford and Stortford and maybe others who were elected in 2019. I look forward to them coming back in 10 years' time and debating a Bill where new carbon capture and storage has been announced. Maybe we will even have achieved it by then, who knows?

Alison Thewliss: Members may indeed remember carbon capture and storage well, because we were promised a huge project in Peterhead, ahead of the indy ref, which has not yet emerged.

Mr McFadden: The hon. Lady is quite young, so she might be here in 10 years' time—

Alison Thewliss: I hope not!

Mr McFadden: Perhaps it is not her ambition to be here in 10 years' time. Carbon capture and storage is back. There are more things that we will have to do, but all of those headings will need finance, capital and investment. That will not all come from the state. It has got to be a combination of public and private investment, if the country is serious about this goal.

This is not an ordinary piece of legislation or A. N. Other Bill that we want to tack on to the regulatory framework. It is an overarching piece of legislation that will inform investment patterns and work production in a whole range of areas. It is one of the most significant pieces of legislation in this country since the end of the war. Perhaps we do not always realise that, but it really is, if one thinks about the list that I have gone through.

All of those things will take finance. It seems to me not odd to add this to the regulatory framework, but very odd that it has not been added already, particularly because the Government have made so much of the country being an international leader in the area, including asking the former Governor of the Bank of England, Mark Carney, to play a leading role. We absolutely welcome that.

Gareth Davies (Grantham and Stamford) (Con): The right hon. Gentleman sets out very well the problem that our generation faces. I say that as someone who has worked in financial services and has a family member who also works in the sector. The right hon. Gentleman is totally right that the key to unlocking progress towards 2050 is through private capital, but will he not concede that the Government have already made significant announcements such as those on the green gilts, the long-term asset fund and the green homes grant? Many announcements that have been made will help to mobilise capital towards the goals that he seeks.

Mr McFadden: The hon. Gentleman is right and he goes for pot 3 in terms of my reasons. I repeat: the problem about pot 3 is that the reason not to accept an amendment is that it concedes that it is absolutely heartless to do so. He is absolutely right. The Government have said that they want the UK to be a leading player and they appointed Mark Carney, who is a champion of green gilts, I believe. I was pleased to hear the Chancellor's announcement, because green gilts have been issued by other countries in the past year or two. They have often been oversubscribed, which shows an investor appetite for products geared to that end.

Let me put the point back to the hon. Gentleman. If there are new financial innovations, such as green gilts, that Governments can issue to finance the list of things I mentioned from the Climate Change Committee and if there is investor appetite, as there seems to be, for the limited number of green gilts that have already been issued, why on earth would we not put at the heart of the regulator's mission that they should have regard to these goals and use them as a guiding principle, particularly as we are going into a post-Brexit world where we will be asked on many fronts what we are for now given that we have left an existing framework? It is particularly appropriate to add this proposal to the Bill. This will require investment and it cannot all be done by the state. It will require innovation in finance. We have mentioned green gilts but other kinds of saving products, investment products, bonds, loans and all sorts of instruments will all have to be geared to the necessary changes to meet the net zero target.

The final reason for the proposal is to stress the ambition of the target. Any one of the things that I read out would require a lot of ambition and a lot of investment. It is pretty hard to see how this can all be achieved if it is not an explicit goal of financial regulation.

To recap, the amendment seeks to make these changes in the least possible contentious way. We have not added a syllable or comma to anything that the Government have not already legislated for. All we are asking for is that the Government signal that they are taking their own legislation seriously by adding the net zero commitment, which the House has already legislated for, to the mission of the financial regulators. That seems to be a most uncontroversial and reasonable thing we can do in the post-Brexit financial regulatory framework.

Alison Thewliss: I support Labour amendments 22 and 24 and wish to speak to amendments 39 and 42 in my name and those of my hon. Friends.

I agree very much with the right hon. Member for Wolverhampton South East. Our amendments are trying to help the Government out. That is unusual but, in the spirit of cross-party consensus and doing things together to save the environment, that is perhaps how we should proceed. On 9 November, the Chancellor said that he wanted to lead the world in the use of technology and green finance. Unfortunately, the Bill somehow missed the boat. It is unfortunate that the Chancellor's statement came just before the Minister made his Second Reading speech because the Bill would be the place to start with this ambition.

11 am

Our amendments very much align with the Chancellor's stated aims on green finance and we want to help the Government meet their aims. Amendment 39 would ensure that

"the likely effect of the rules on the UK meeting its international and domestic commitments on tackling climate change"

was considered before part 9C rules are made. Amendment 42 would do the same for the CRR rules. This is very important to me, not least because the COP is scheduled to happen in my constituency next year. I am sorry that it did not happen this year, but that is the way that things are with covid.

We know that it is important for all parts of Government and the financial services sector to assess how their activities impact climate change, because if we do not take this seriously right across the board, change will not happen. The radical change that we need will not happen quickly enough. I was heartened when the Governor of the Bank of England said at the Treasury Committee yesterday that he was very keen on his rules being changed to help meet these green objectives. The Bank of England is in discussions with the Treasury about changing its mandate to reflect green ambitions. It is important that we reflect that across all the regulators as well.

Our amendment would ensure that climate change remains high on the FCA's agenda and part of its core activities. New section 143G(1)(c) in part 1 of schedule 2 refers to

"any other matter specified by the Treasury by regulations",

so it may well be that this will be done anyway, but it would have been nice, in the spirit of cross-party consensus, if the Government had taken this on rather than waiting for some point further down the road. We have the opportunity here today to say that we think that this is important enough to put in the Bill itself. It may well be something—the Minister will tell us—that they are going to do later or eventually, but why not take the opportunity today?

While we welcome and recognise movements within the financial services sector to progress environmental, social and corporate governance and other moves supporting the environment, it is vital that the regulations keep pace with the pressing need to ensure that the private sector contributes as much as possible to our environmental goals. The covid-19 pandemic has been an unprecedented global crisis that has fundamentally changed every aspect of our lives and it will continue to do so for some time to come. While the immediate focus of the Government continues to be on protecting lives and livelihoods, the climate emergency has not gone away and must be central to our recovery from this difficult time. The amendment would be timely in doing this now to ensure that the recovery and the actions of the financial services sector reflect that.

In anticipation of the new normal, we have the chance to reimagine the world around us and begin building a greener, cleaner and more equal society and economy. Our starting point has changed but our ambitions have certainly not changed. The SNP remains deeply committed to its ambition to end Scotland's contribution to climate change by 2045. I am equally clear that the year's delay to the COP should not and must not mean a delay in collective global action to tackle climate change.

The UK really does have the opportunity to be a leader here. If Scotland were independent, we would hopefully be leading that charge, but we leave reserved matters to the UK Government and ask them to take on those obligations. We hope that the FCA can go further in tackling the climate crisis. Westminster still lacks the ambition that we have in Scotland. I should set out that our climate change targets are for a 75% reduction in emissions by 2035, net zero carbon emissions no later than 2040 and net zero for all emissions by 2045, which is five years ahead of the UK. Energy policy is largely reserved to the UK, so we need to take this opportunity to follow the money, to look at where investment is going and to ensure that we can meet our obligations. We welcome the pledges on green finance and think that the amendment would help to enhance the UK Government's commitments.

Since the right hon. Member for Wolverhampton South East mentioned carbon capture and storage, I want to set out briefly where we see this. We see very much that the north-east of Scotland has been left behind again. My hon. Friend the Member for Aberdeen South is still travelling down here. When we discussed the scheduling of the Committee, I mentioned that the way the Committee meets during the covid pandemic makes it difficult for Members from further afield to get here, and this afternoon is very much the soonest that he can make it here this week, because of the difficulties we have with transportation, the limitations of this Committee and the fact that we cannot do things virtually. He would want to highlight that the north-east of Scotland has not had the commitments that we were promised on carbon capture and storage or on the oil sector transition deal.

In 2015, the UK Government axed the £1 billion grant that established the carbon capture scheme in Peterhead, which would have created 600 jobs and made Scotland a global leader in clean energy technology. Despite the promises made pre-indyref and in the 2015 manifesto, the money did not appear. The £200 million is a far smaller amount. It was earmarked for two clusters by the mid-2020s, with another two for the 2030s. One must be in Scotland and the north-east as well as at Grangemouth, which needs to make that transition.

We very much feel that the UK Government have not met the promise in their rhetoric on climate change. We know that there is much more that could be done. Although the purse strings are held and the decisions made in Westminster, we will continue to put pressure on the Government to be more ambitious and to do more. Our amendments would push them and the regulators a wee bit further, to try to move a good deal faster because of the pressure of the climate emergency that we face. We cannot wait until some point down the road to make the changes. We need to start today.

Abena Oppong-Asare (Erith and Thamesmead) (Lab): I am delighted to speak in favour of amendment 24. In just 12 months, the UK will host and hold the presidency of the 26th UN climate change conference of the parties in Glasgow, where the world will be watching. The amendment shows that the UK means business on climate change and that the Government are putting in place their promise to join forces with civil society, companies and people on the frontline of climate action ahead of COP26. It has the support of all political parties, so this is in no way party political or controversial.

Last week the Committee heard evidence from the likes of the Finance Innovation Lab and Positive Money, which support the amendment. The witnesses mentioned that it would be helpful if the FCA could refer to the Climate Change Act when preparing secondary legislation. Will the Minister therefore consider putting in capital requirements for investment firms, introducing weighting on environmental, social and governance issues such as penalising assets that have climate risks? As we know,

[Abena Oppong-Asare]

the Bill covers legislation on packaged retail and insurance-based investment products, which will bring the £10 billion market to the EU.

We also heard last week that the Bill could be improved further, with a key information document that investors receive when looking at PRIIPS to include disclosure on environmental and social governance issues, and to ask the FCA to ensure that happens. I am sure the Minister will agree that that would help the Prime Minister achieve his ambitious 10-point plan—it is certainly ambitious—for the green industrial revolution.

It is important to know that there is a drive towards greater ESG integration across the financial sector, which investors are pushing for as well. This is an opportunity for the Bill to be shaped more robustly, and it sends a really strong message that the UK takes climate change seriously.

As we sit here today, hundreds of young people are meeting virtually at the mock COP, ensuring that net zero goals are deliverable. I am therefore surprised that elements of the amendment are not already in the Bill, given the Prime Minister's ambitious 10-point plan for a green industrial revolution, which will not be deliverable if we do not reinforce our commitment to environmental sustainability in the Bill.

The amendment, which I believe is rather reasonable, would lay the foundations for sustainable environmental infrastructure with substance. As mentioned by a number of colleagues, this is not controversial but something that we really need right now. Particularly as we are dealing with covid, we need to be thinking seriously about the environment. The only way we can ensure that this is delivered is by putting something in the Bill that requires firms and the regulator to step up on this issue.

We do not have time for delay. This is an opportunity for us to put our heart into the Bill and deliver what we have promised, and it falls in line with what all political parties have been asking for.

Stella Creasy: The shadow Minister is making a powerful speech. I take the point made by the Government side, but I always wonder: what about the counterfactual? What problem will there be if we do not put these things into legislation? What message would that send about what might be jettisoned if, God forbid, we had another crisis on a similar scale to this year's? Action on climate change is something that we simply cannot afford to go slow on. The counterfactual on this is an important issue, because it gives us an opportunity to say that if we do not put it into legislation, we are sending a message that this might be an optional extra, rather than an integral part of our future as a country.

Abena Oppong-Asare: My hon. Friend makes a good point. The UK Government constantly say on their website that they plan to go further and faster to tackle climate change. As my hon Friend has mentioned, this is a perfect opportunity to ensure that this is implemented in the Bill. I am surprised, frankly, that it is not in there. All that we are asking for is a reasonable amendment that already falls in line with the Government's objectives. It is not going to create any extra work. We need to think about the future, particularly if we do not take action to address climate change, because we are heading for difficult times and I am really worried about the future for younger generations.

John Glen: Let me say at the outset that the Government are fully committed to reaching our climate change aims both domestically and internationally. We have set our commitment to net zero in legislation. When I was listening to the right hon. Member for Wolverhampton South East discuss the range of interventions and announcements that the Government have made in recent weeks and pivot back to the good work done previously, this underscores the fact that looking at this through a bipartisan lens is probably the most effective way. The aims that we share should be supported by sectors across the economy, not least financial services, as the Chancellor set out in his recent statement to the House.

Amendment 20 would insert the net zero target into the FCA's accountability framework for the implementation of the investment firms prudential regime. Amendment 39 is similar, as it would insert an additional consideration into the FCA's accountability framework, requiring the FCA to have regard to the likely effect on the UK's domestic and international commitments on climate change.

I fully support the intention behind these amendments, of course, but the aim of this measure is to enable the implementation of a specific prudential regime to apply to a specific type of firm. The current "have regards to" provisions in the Bill are those that the Treasury found to be immediately and specifically relevant and that reflect issues raised by industry. I think about our relative standing and the importance of considering and aligning with international standards. Those are the ones that also relate to the equivalence decision and are directly tied to the implementation of the IFPR.

As the Chancellor set out in his statement outlining the new chapter for the financial service in the UK, if we are to achieve the net zero target it will mean putting the full weight of private sector innovation, expertise and capital behind the critical global effort to tackle climate change and protect the environment. The Treasury and the regulators are already making ambitious strides to that effect, and Members have referred to the role of the former Governor, Mark Carney. I draw attention to the green finance strategy, which the Government published just 15 months ago, and to the work across a number of activities in the City on which I have been seeking to lead over the past three years. The green finance strategy is something that the regulators have actively supported.

11.15 am

There is the joint PRA/FCA climate financial risk forum and the Chancellor's recent announcement that this country will become the first in the world to make disclosures that are aligned with the recommendations from the taskforce on climate-related financial disclosures. We are making those disclosures fully mandatory across the economy by 2025.

I think the hon. Member for Erith and Thamesmead mentioned the remit letters. I reconfirmed at the Treasury Committee hearing last week that we plan to use remit letters for the regulators, which the Treasury is required to issue at least once per Parliament, to set ambitious recommendations relating to climate change. We have already done that for the Financial Policy Committee, and we will issue the remaining remit letters at the next opportunity, to allow the Government to reiterate their expectations for the regulators ahead of the UK hosting COP26 in November 2021, which has also been mentioned this morning.

I acknowledge, of course, that a net zero "have regard" to the implementation of the IFPR would not be contradictory to the wider picture. However, the "have regards" currently in the accountability framework reflect the considerations that are tailored to each prudential regime. Furthermore, there is a lot of ongoing work on how to capture climate change risks in prudential regulation—for example, a Basel Committee taskforce seeks to understand how climate risk is transmitted, assessed and measured. Careful consideration of such work, and consultation of the regulators and other sources, is needed to understand how a prudential green "have regard" might best be added.

The Bill grants the Treasury a power to specify further matters in the accountability framework at a later date, which could be used to add a requirement to explicitly have regard to green issues in the prudential framework, if appropriate. In the light of that power, I can assure the Committee that the Treasury will carefully consider a green "have regard" in the future, once the Government have had consultations on their exact framing of the prudential regimes and on the considerable body of international work that is going on.

Stella Creasy: Apologies; I did not realise the Minister was going to move on. He has made an incredibly powerful case for the importance of including such a commitment, and he has essentially said that the Treasury might look to include it. He said that it had looked only at the immediate and specific regulatory requirements. Of course, many of us believe that we are facing an immediate and specific crisis, so can he tell us why the Treasury has not already taken on the issue of climate change, given that he has made a case that it should be part of it? He has gone for pop No. 3 in the shadow Minister's list. There might be a sixth option here, which is: "If we did not come up with it, we are not going to support it." That would be rather short-termist, surely.

John Glen: I hope I would never be accused of taking such an approach. The reality is that I want the Bill to work most effectively. As I just said, the regulators are already taking into account climate change as a risk to the economy. The FCA/PRA climate financial risk forum and the Bank of England's climate change stress test are alive and working, and I am confident that they will continue to consider climate change risk when making rules for the prudential regimes. In that context, we will look carefully at the need to add that specific additional reason. I have also stressed the work that is going on internationally. We should ensure that what we put in primary legislation is actually best practice and in line with the evolving consensus on how to deal with such matters.

I turn now to amendments 24 and 42, which make a similar set of changes to the Prudential Regulation Authority's accountability framework for the implementation of the remaining Basel standards. As I have already said, the Government are already considering how best to ensure that the regulators and the financial sector can meet the commitments, and the Bill grants the Treasury a power to specify further matters in both accountability frameworks at a later data, which could potentially be used to add such a "have regard" in future, if appropriate. Therefore, after serious consideration, I respectfully ask the right hon. Member to withdraw the amendment.

Mr McFadden: The Minister is effectively saying that this is not the right time or place, but it is something that the Government will carefully consider. Given the things that have happened in politics in recent years, prediction is a dangerous game, but I expect that this is something that the Government will eventually decide to do, and I think they will make a virtue of doing it at that time. Indeed, I can see the Chancellor making the statement to the House of Commons right now, saying, "This new requirement for the Bank of England, for regulators, for the whole of Government, puts the UK at the heart of this shift to green finance and the achievement of tackling climate change."

I agree with my hon. Friend the Member for Walthamstow that the more the Minister said he agrees with this, the more it begged the question of why he does not do it now; we have to start somewhere, and putting it in here would only encourage it being put in broader financial regulatory systems. We also have this consultation in the future regulatory framework; it might even be part of the conclusion to that. For that reason, I am minded to press the amendment today.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 10.

Division No. 2]

AYES

Creasy, Stella	Oppong-Asare, Abena
Eagle, Ms Angela	Smith, Jeff
McFadden, rh Mr Pat	Thewliss, Alison

NOES

Baldwin, Harriett	Marson, Julie
Cates, Miriam	Millar, Robin
Davies, Gareth	Richardson, Angela
Glen, John	Rutley, David
Jones, Andrew	Williams, Craig

Question accordingly negatived.

Ordered, That further consideration be now adjourned.—*(David Rutley.)*

11.23 am

Adjourned till this day at Two o'clock.