Barclays Response to HM Treasury's Future Regulatory Regime for Draft Statutory Instrument: The Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No. 2) Order 2024

14 January 2025

At Barclays our vision is to be the UK-centred leader in global finance. We are a diversified bank with comprehensive UK consumer, corporate and wealth and private banking franchises, a leading investment bank and a strong, specialist US consumer bank. Through these five divisions, we are working together for a better financial future for our customers, clients and communities.

Climate change is a critical and complex challenge. Addressing it is a priority for Barclays. We have a clear climate strategy and continue our progress towards our ambition of being a net zero bank by 2050, by achieving net zero operations, reducing our financed emissions, and financing the transition. As part of this, we have targets to i) facilitate $1trn of Sustainable and Transition Financing for clients between 2023 and the end of 2030, and ii) to invest up to £500m of our own capital into global climate tech start-ups by the end of 2027.

Executive Summary

We welcome the opportunity to respond to HM Treasury's Draft Statutory Instrument: The Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No. 2) Order 2024 Consultation (the Consultation).

We support the Government's proposal to bring ESG Ratings into the regulatory perimeter, as outlined in the 'Future regulatory regime for Environmental, Social and Governance (ESG) ratings providers' consultation response.[1] Barclays considers this to be a critical priority. As investors' focus on ESG matters continues to increase and the markets require increasing volumes of data to comply with sustainability disclosures regulatory requirements, the use of ESG ratings is having an increasingly important impact on the operation of capital markets.

As HM Treasury has identified, despite their ever-increasing importance, there are significant challenges related to a lack of transparency on:

1. The sourcing of ESG data;
2. The methodologies used in the calculation of the ESG rating; and
3. The intended use of the ESG rating (e.g., measuring ESG risk or sustainability impact).

These issues lead to poor correlation between ESG ratings and confusion among users.

We suggest that Government should focus on following areas:

1. HM Treasury should clarify the potential drafting ambiguity in the draft SI to align with its clear policy intent to exclude investment research.
2. HM Treasury should provide further clarity around the exemption and reconsider its proposal to exclude charities from the scope of regulation.
3. HM Treasury should consider the intersection of upcoming ESG rating regulation with existing proxy advisor regulation.

[1] https://assets.publishing.service.gov.uk/media/6735d760b613efc3f18230da/UK_Government_consultation_response_on_a_future_regulatory_regime_for_Environmental__Social__and_Governance_ratings_providers.pdf

4. HM Treasury should provide additional clarity on the accreditation or certification exemption.