Financial Services & Markets Bill: WWF Lords Committee Stage briefing

January 2023

KEY POINTS

- **At Committee Stage of the Financial Services & Markets Bill (FSMB), peers should back Amendments 44, 53, 56, 62, and 68, which together would insert a new secondary statutory objective for regulators on climate and nature.**
- These amendments will help align the UK economy and financial services sector with the Government's net zero target and the targets in the 2021 Environment Act. It is impossible to achieve a net zero financial sector without giving financial regulators a mandate to actively support it.
- As drafted, the FSMB forces regulators to prioritise 'competitiveness and growth' over ensuring the financial sector supports delivery of the UK's nature and climate targets in law. Though the Bill includes a 'regulatory principle' on net zero, this is insufficient because regulators must only take this 'into account when pursuing their statutory objectives'. These amendments are critical to ensure that climate and nature are at least given the same level of priority as competitiveness and growth within financial regulation.
- The Bill provides an unparalleled opportunity to help build the green economy of the future. Not doing more to actively support the green economy now will bear serious economic costs in the near future, and many businesses support stronger action in the Bill.
- The finance sector will play a vital role in determining whether the world will successfully transition towards a zero-carbon, sustainable economy through its financing practices, as a major investor in companies worldwide, and as an insurance underwriter. In 2021, WWF and Greenpeace's Big Smoke report found that financed emissions from the 25 leading UK banks and asset managers are responsible for nearly double the UK's annual carbon emissions. In stark terms, if the UK banks and investors in this study were a country, they would be ranked 9th biggest emitter of CO2 in the world – ahead of Germany.
- The Bill starts Committee Stage in the Lords on Wednesday 25 January. We urge peers to attend and support Amendments 44, 53, 56, 62, and 68 to insert a new secondary statutory objective on climate & nature.
- These Amendments are supported by WWF, ShareAction, Greenpeace, Finance Innovation Lab and E3G.

DETAILS OF THESE AMENDMENTS

- Amendments 44, 53, 56, 62 and 68 would together introduce a secondary statutory objective for the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) on climate and nature.
- It would sit alongside the proposed competitiveness and growth objective, requiring (where possible) the FCA and PRA to actively facilitate net zero and nature recovery through their policymaking, rulemaking, guidance and supervision of the financial sector, which currently funds environmentally harmful activities.
- The Government's proposed regulatory principle on climate as well as the existing regulatory principle on sustainable growth would be removed by Amendment 68 so to avoid duplication. The Bill already introduces another secondary objective for the regulators to promote international competitiveness and growth.
- These amendments are intended to help align the UK economy (and particularly the financial services sector) with the net zero target and carbon budgets in the Climate Change Act 2008, and with environmental targets in Sections 1 to 3 of the Environment Act 2021. It uses concepts and terms which are already understood in law, plus specific and measurable targets.

- Together, this would bring financial services regulation in line with existing government policy and commitments on climate and nature. It would also give the regulators a steer on what is required in practice to halt and reverse nature loss (i.e., as a starting point, ensuring that the targets under the Environment Act 2021 are met).

These climate and nature amendments to the Bill provide an unparalleled opportunity to help build the green economy of the future

- The Financial Services and Markets Bill is described by the Government as a "once-in-a-generation opportunity" to make financial services regulation work for the UK after Brexit and deliver on the Government's COP26 promise to build the world's first net-zero financial centre.
- Globally, an estimated $32 trillion of investment is needed by 2030 to tackle climate change alone. The UK could be a global centre for those financial flows, powering the economy of the future. A green financial centre would bring significant economic returns and help address our economic challenges, including the ongoing cost of living and energy crises by unlocking capital for critical infrastructure investment.
- The supply of goods and services to enable the global net-zero transition could be worth £1 trillion to UK businesses by 2030.
- Accelerating the roll out of low carbon technologies could reduce household energy bills by £1800 per year. Low-carbon financial services could generate an export opportunity of up to £7.5bn per year in 2030, rising to £17bn per year by 2050.
- At COP27, finance experts **including former Governor of the Bank of England Mark Carney demanded the alignment of financial regulation with net zero**. This builds on then-Chancellor Rishi Sunak's promise at COP26 in 2021 that the UK would create the world's first net zero financial centre.
- With London recently losing its position as Europe's most valuable stock market, the green transition would spur the necessary green growth to help Britain recover its overall competitiveness and lean into the economy of the future. But the UK won't lead the global green finance sector without the right regulatory framework to support it, which is why these amendments are needed.
- Of existing green investment in the UK, the Investment Association found only 14% of members incorporated ESG across their entire portfolio in 2019, and 44% said it accounted for less than 25% of their portfolio. This is insufficient if the UK is to truly be a leader in green finance.

Not actively supporting the green finance sector now will bear economic costs

- A second statutory objective on climate and nature is critical given the Bill's new secondary statutory objective on international competitiveness and medium to long term growth.
- We must ensure that any regulatory action by this Government is aligned with a net zero and nature positive transition, otherwise we risk exacerbating the overwhelming economic and societal shocks caused by climate change and nature loss.
- Greening the financial sector was a stated objective of the Green Finance Strategy. It doesn't make sense that the Government has introduced one of these objectives, competitiveness, and disregarded the other. Informally, regulators have told WWF that it is not clear what their mandate on nature is. Regulators should not have to find convoluted routes in order to green the financial system. There should be a clear statutory mandate for the regulators to achieve it.
- The growing impacts of the twin crises of climate change and nature loss, as seen in the UK and around the world with devastating fires, drought, and flooding, are creating new financial risks and societal and economic challenges, including higher insurance premiums and lower economic productivity, that will only deepen without action from the government and financial regulators. Europe is estimated to lose 10% of GDP by 2050 if we don't tackle climate change.
- Deforestation also presents a material risk to the UK's financial stability, yet the UK remains a major financier of deforestation. Global Witness's briefing provides further information and details of a specific amendment on forest-risk commodities.
- The UK's financial services sector still continues to fund industries that contribute to climate change and nature loss. Since the UK is one of the most important hubs for financial services in the world, peers can therefore make a significant impact on climate change and nature loss through better regulation of its financial services sector.
- Other jurisdictions are already actively developing their supporting regulatory frameworks: the French regulator has a statutory objective linked to climate, and the German regulator has a

sustainability objective which integrates sustainability issues into its supervisory activities. We need proactive, empowered UK regulators to stay ahead.

Businesses support a new statutory objective to facilitate a net zero and nature positive transition

- During Commons Committee Stage of the Bill, a group of 12 major financial services businesses including Aviva Investors, Phoenix, Hargreaves Lansdown, Aegon UK and Federated Hermes submitted evidence declaring their support for a statutory objective to facilitate the transition of financial services to net zero, stating that "the proposed regulatory principle will not provide a sufficiently strong legal basis for regulators to promote a thriving net zero financial sector. It certainly won't encourage the regulators to ensure that the UK becomes the world's leading green financial centre".
- This sentiment was reiterated during evidence heard by the Bill Committee, including from New Financial's William Wright, who told the committee that in every sector they had analysed, the UK lags behind in terms of its competitiveness in green capital raising.
- In September, more than 100 big businesses worth a combined £1.8 trillion, including Amazon, E.on and Ikea, reiterated their commitment to protecting and restoring nature and delivering a net zero economy, urging the Prime Minister to present a plan on how Britain will meet its net zero goal.
- In the summer, leading business groups, representing all sectors of the UK economy, called for an ambitious focus on the delivery of solutions to the climate and nature crises to give businesses the confidence to invest.

The Government's proposed net zero regulatory principle is inadequate

- Unlike Amendments 44, 53, 56, 62, and 68 to insert a secondary statutory objective, the Government's proposed regulatory principle on net zero will be insufficient to ensure that UK financial services meet the UK's climate change commitments and create a green financial centre. In the Second Reading debate in the Lords on 10 January, several peers from multiple parties raised this point.
- These amendments would ensure that the regulators have a secondary objective around climate change and nature.
- The current Bill replaces an existing regulatory principle on sustainable growth with a principle on the need to contribute towards achieving compliance with the net zero target that regulators must consider alongside seven others when discharging their duties.
- However, this is insufficient and inferior to the system proposed by these amendments. The Treasury itself has pointed out that "the regulators are not required to act to advance their regulatory principles". Minister Baroness Penn said in the Second Reading debate that regulators are only "required to take into account" a regulatory principle on net zero.
- Legal analysis by international law firm CMS confirms that a regulatory principle would not provide an appropriate legal basis for regulators to facilitate the rapid growth of the green finance sector which considers climate and nature.
- The Government's proposed regulatory principle would also fail to require the regulators to even consider the vital role of nature in achieving net zero.

The Bill does not do enough to prevent climate change, and nothing to protect nature

- The Bill does not implement the Government's own priorities on a green transition. The COP26 agreement included a requirement for all UK regulated financial institutions and publicly listed companies to publish net zero transition plans by 2023. To implement this, the government pledged in 2021 to legislate for mandatory transition plans through the UK's Sustainability Disclosure Requirements.
- The Bill does not address protecting nature. This is despite the Government's Transition Plan Taskforce, set up to develop 'gold standard' transition plan guidance, recognising the importance of nature in transition plans.
- During Committee Stage of the Bill in the Commons, Andrew Griffith, the Economic Secretary to the Treasury, recognised that "we cannot achieve our climate goals without acknowledging the vital role of nature. That should concern us all, as it is part of the carbon ecosystem". He promised to consider this issue further "to see whether there is anything else that can be done". An ideal way to do this is through the Government supporting these amendments to insert a secondary statutory objective on climate and nature.

To receive further information or to work with WWF on the Bill, please contact Jess Smith jsmith@wwf.org.uk