



Financial Services & Markets Bill 2022: House of Lords Second Reading Briefing

10 January 2023

“To stay ahead and stay competitive, we need the Financial Services and Markets Bill to introduce a new secondary objective requiring regulators to facilitate the alignment of the financial services sector with net zero, and the delivery of a nature-positive economy.”

Andy Briggs, Chief Executive, Phoenix Group, [published 4th November 2022](#) in Edie.

KEY POINTS

- The Financial Services and Markets Bill (FSM Bill) is a “once-in-a-generation opportunity” to [make financial services regulation work for the UK](#) 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. It would bring significant economic returns and help address our economic challenges, including the ongoing cost of living and energy crises.
- 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 robust plan on how Britain will meet its net zero goal.
- At COP27, finance experts including former Governor of the Bank of England Mark Carney [demanded](#) the alignment of financial regulation with net zero.
- This proposed legislation could create the right regulatory framework by giving the UK regulators the remit to promote a booming UK green finance sector and capitalise on the green transition, but it needs amending to do so.
- Numerous financial institutions, including Aviva Investors, Phoenix, Hargreaves Lansdown, Aegon UK and Federated Hermes, are backing a **secondary statutory objective** to facilitate the transition of financial services to net zero [and had written to the House of Commons Bill committee](#) on this. The private sector has the ambition, but it needs the government to legislate to supercharge the green transition.
- **Peers should urge the government to introduce a new secondary statutory objective requiring the regulators to facilitate the alignment of the financial services sector with net zero and nature targets.**
- There is also currently a disconnect between the Bill and the government’s work on transition plans. The COP26 commitment 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. However, the Bill, despite being the obvious piece of legislation to mandate transition plans, fails to do so, and there is currently no sign of another piece of appropriate legislation in the pipeline to implement them.
- Furthermore, the government’s Transition Plan Taskforce, set up to develop ‘gold standard’ transition plan guidance, recognises the importance of nature. In contrast, nature is not addressed in the Bill, despite the Economic Secretary [recognising](#) that we cannot achieve our climate goals without acknowledging the vital role of nature.

BACKGROUND

The Bill provides an unparalleled opportunity to lean into the economy of the future

In a challenging economic climate, the green transition offers an enormous opportunity for people and businesses. 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.

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. However, the UK won't lead the global green finance sector without the right regulatory framework to support it.

As currently drafted the Bill does not actively support a leading green finance sector

The current Bill will not require the regulators to act with the proactivity required to establish the conditions for a leading green financial centre. It 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, [legal analysis](#) 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. Nor would it require the regulators to consider the vital role of nature in achieving net zero. HMT itself has pointed out that "the regulators are not required to act to advance their regulatory principles; instead, they must take them into account when pursuing their statutory objectives". In practice, regulators could consider a principle, but choose to depart from it. Therefore, the Bill unnecessarily restricts a cost-free and impactful lever to achieve a globally leading green finance centre.

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

A secondary statutory objective on climate and nature is even more critical considering the Bill's proposed new secondary statutory objective on international competitiveness and medium to long term growth. We must ensure that any regulatory action to grow the economy is consistent 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. Deforestation, for instance, presents a material risk to the UK's financial stability, yet the UK remains a major financier of deforestation. Moreover, Europe is [estimated](#) to lose 10% of GDP by 2050 if we don't tackle climate change. The growing impacts of the twin crises of climate change and nature loss, as witnessed 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.

We also have a time limited opportunity to build the world's first green financial centre and enjoy the associated first mover advantages of both greater international credibility and more business. 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.

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

There are consistent and widespread asks from business and industry groups for the government to maintain the UK's progress on tackling climate change. 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. During Committee Stage, a group of 12 businesses [submitted evidence](#) declaring their support for a statutory objective to facilitate the transition of financial services to net zero, stating '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. Furthermore, the UK's largest long-term savings and retirement business, Phoenix Group, have [stated](#) that 'a new regulatory objective will ensure that it is firmly within the mandates of the financial regulators to protect our economy against climate and nature risks and protect investors from unfettered greenwash'.

Business and environmental organisations alike support the Government's ambition to make the UK the world's first net zero financial centre. A regulatory framework that gives due priority to climate and nature is crucial if that is to be delivered upon.

Contact details

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