



FINANCIAL SERVICES AND MARKETS BILL: LORDS REPORT

STAGE BRIEFING

JUNE 2023

SUMMARY

- On Tuesday 6th June 2023, the Financial Services and Markets Bill will return to the House of Lords for Report Stage.
- **WWF strongly supports the amendment tabled by Baroness Hayman which would amend Clause 25 of the Bill. This amendment adds nature to the new regulatory principle on the UK's net zero emissions target.**
- At present nature is not mentioned in the Bill. By excluding nature from key financial services legislation, the UK will fail to secure opportunities that could make the UK a leading green finance centre, while exposing the country to nature related risks.
- This amendment is **the bare minimum** to ensure nature is represented in the Bill.

GOVERNMENT'S CURRENT POSITION – AND WHY IT'S LACKING

- During Committee Stage in the Commons, Economic Secretary to the Treasury Andrew Griffith recognised that “we cannot achieve our climate goals without acknowledging the vital role of nature”. He promised “to see whether there is anything else that can be done”.
- WWF fully agrees with the minister's comments. The idea that the economy is separate from the natural world is false. There cannot be economic growth without a functioning ecosystem.
- However, the Government has since backtracked on these comments and its net zero regulatory principle still fails to mention nature. Indeed, the Government has suggested inserting nature isn't necessary, citing the protections offered by the Environment Act 2021, the Taskforce on Nature-related Financial Disclosures, and the International Sustainability Standards Board Process.
- All three of these examples aim to provide targets and standards, but none are sufficient substitutes for nature being adequately reflected in the regulator's remit because **none of these create obligations for the independent financial regulators**, who control many of the levers to **deliver** the Government's climate and nature goals (see below).
- The Government did consider it necessary to revise the regulatory principles to point to the net zero emissions target, reflecting the Climate Change Act 2008 (as well as international standards and initiatives, including those above, which apply to climate issues). It is unclear why a different approach is being taken for nature and why nature has not been reflected too, particularly given that climate change and nature loss are interconnected issues which must be tackled together.
- The Government also argues that both climate and nature are a core part of the regulators' primary objective on financial stability given climate and nature risk. But the regulators do not use long enough time horizons to effectively account for this. For example, the Bank

of England uses time horizons of 3-5 years to judge financial risk, which is clearly inadequate when dealing with nature loss.

WHY NATURE SHOULD BE INCLUDED IN THE FSM BILL

- Reaching net zero relies on nature. Science & business strategy dictates that the net zero and nature-positive transitions can't happen sequentially and must be done together, and regulators that only address climate change but not nature would fail to sufficiently address climate change. Clearly, the regulators require more direction on this: [a recent FCA consultation](#) referred to nature as one of many focuses 'beyond climate'.
- We are losing nature at an alarming rate. WWF's 2022 Living Planet Report shows that since 1970 global wildlife populations have plummeted almost 70%. Biodiversity loss must be addressed now: we do not have another 20 years for another Bill to revise how financial regulation in the UK operates only to then consider nature.
- The financial value of ecosystems services has been estimated at \$30.24-102.07 trillion USD every year.¹ 50% of global GDP is directly dependent on nature - it underpins our whole economy and human civilisation.
- The Government's own Dasgupta Review argued for the inclusion of natural capital into national accounting so the UK's financial flows are better diverted towards sustainable growth rather than damaging, outdated, and volatile investments such as fossil fuels.
- The financial regulators control many of the levers by which to deliver on the Government's climate and nature goals and help to protect those ecosystem services. A report by the Network for Greening the Financial System – a network of central banks and regulators – said: "There are several priority areas that may not fall directly within the mandates of central banks and financial supervisors, but where they can contribute to the design and delivery of effective solutions. These include topics such as environmental disclosure... and how biodiversity risks are transmitted through international financial flows and trade."
- Without explicit reference to nature in legislation that directs the regulators to consider the issue, there will be continued uncertainty around whether/when the regulators will act, meaning businesses will not have the confidence to invest in nature positive activities.

THE UK'S INTERNATIONAL REPUTATION AND COMMITMENTS

- At COP15 in Montreal, the UK committed to the Kunming-Montreal Global Biodiversity Framework (GBF) which it recognised as being critical to halting and reversing biodiversity loss & to putting nature on a path to recovery.
- Target 14 of the GBF commits the UK to "ensur[ing] the full integration of biodiversity and its multiple values into policies [and] regulation... aligning all relevant public and private activities, fiscal and financial flows with the goals and targets of this framework". A clear way to progress this is to embed nature into the decision making of the regulators.
- The UK will have to prepare its "National Biodiversity Strategy and Action Plan" in time for COP16 in 2024 – this should cover its actions to meet target 14.
- If the UK wants to be a leader on green finance and have any credibility at this and future CBD COPs, rather than turning up empty handed, nature must, as a bare minimum, be inserted into the FSM Bill as a regulatory principle.

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

¹ Figure adjusted for inflation