



# FINANCIAL SERVICES AND MARKETS BILL

## REPORT STAGE

An opportunity to end the money pipeline driving global deforestation and deliver a green UK economy

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**Further detail and assistance**

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The Financial Services and Markets (FSM) Bill is a once-in-a-generation opportunity to redesign the rules underlying all UK financial regulation. In its current form, however, the Bill does not deliver the competitive 'net zero financial centre' and 'nature-positive economy' promised by this government.

**The UK could be a leading power in the global green economic transition. To realise this potential, we urge you to use your voice at Report Stage to:**

**Support amendment NC24 introducing mandatory deforestation-risk due diligence obligations for UK financial services, to prevent the financing of businesses and activities destroying climate-critical forests.**

This amendment obliges UK financial actors to execute the same due diligence requirements introduced for large companies under Schedule 17 of the Environment Act. Extending this obligation to the UK financial sector was independently recommended by the Government's own [cross-sector Global Resource Initiative \(GRI\) taskforce](#) in May 2022.

The UK is a leading financier of global deforestation.

- UK banks and asset managers provided an estimated [\\$16.6 billion](#) to businesses implicated in deforestation between 2015-2020, making an estimated [\\$192 million \(£147 million\) in profit](#).
- Over [£300 billion of UK pension money](#) is invested in high deforestation risk companies and financial institutions.
- The UK financial sector faces up to [£200 billion in risk exposure](#) to Brazilian beef and soy supply chains and Indonesian palm oil supply chains alone.

Amendment NC24 is essential for the UK to meet its legally binding commitment to halt and reverse deforestation by 2030 latest, by stopping the City of London from pumping money into companies destroying climate-critical forests abroad.

This is only the first step: as also recommended by the GRI taskforce, the UK must go beyond 'legal

only' to ensure financiers can only invest in businesses and activities that are free from *all* human rights abuses and deforestation (legal or illegal). By only requiring compliance with local laws, the UK's approach creates an incentive to deregulate in producer countries. Already up to [30% of tropical forest destruction](#) is defined as 'legal' under local country laws.

We therefore urge you to support and encourage amendments in the Lords which extend the due diligence obligations introduced by amendment NC24 to cover all deforestation and human rights risks in forest-risk value chains, also guaranteeing the secondary regulations required to enact Schedule 17 are brought forward without delay. Mandatory due diligence by the financial sector should enter into force at the same time as companies become obliged under Schedule 17 of the Environment Act and this regulation be subject to the same review timeline by the Secretary of State.

**Raise your support for a new statutory objective for regulators to do no harm to nature and align the regulation of the financial system with the 1.5°C goal of the Paris Agreement.**

Currently, the Bill forces regulators to prioritise 'competitiveness and growth' over the Paris Agreement and the UK's nature and climate targets in law. Although 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](#)'.

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The Greening Finance Roadmap is designed to ensure financial actors '[factor climate change into every investment decision](#)'. This is unachievable under current financial regulation.

Twelve financial institutions including Aviva, Federated Hermes and Aegon [have written to the Bill Committee](#), 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'.

Climate change will cost UK banks more [£340 billion by 2050](#) if action is severely delayed, according to the Bank of England.

We encourage you to voice your support for a statutory objective that obliges regulators to align the financial system and its regulation with the 1.5°C temperature goal of the Paris Agreement, including do no harm to nature provisions, as is backed by Global Witness, Greenpeace UK, WWF and ShareAction among others.

## The Evidence

Deforestation, biodiversity loss, climate change and linked human rights abuses pose a material risk to the UK's financial stability, as well as individual financial institutions.

**Limiting global temperature rises to 1.5°C will only be possible if the UK financial sector stops bankrolling deforestation.** The agriculture, forestry and land use sector produce [almost a quarter \(23%\) of all global greenhouse gas emissions](#). Deforestation is a 'top priority area' in the [UK's Net Zero Strategy](#).

**The UK is a major financier of global deforestation.** UK banks and asset managers provided an estimated [\\$16.6 billion](#) to just 20 businesses implicated in deforestation between 2015-20, making [\\$192 million \(£147 million\) in profit](#). Over [£300 billion in UK pensions](#) is exposed to high deforestation risk. UK financiers face up to [£200 billion in risk exposure](#) in Brazilian beef and soy and Indonesian palm oil

supply chains alone.

**Urgent action is required to end commodity-driven deforestation by 2025 and all land conversion by 2030 at the latest.** Binding net zero targets under the Climate Change Act are jeopardised by the City of London's role in deforestation financing.

**The Environment Act, passed last year, is not enough to stop global deforestation.** The government has legislated to limit the deforestation impact of imported agricultural commodities not produced in compliance with local laws but chose to wait for a financial regulation bill to regulate the UK financial sector. This is the most appropriate Bill to introduce these powers. Companies funded by UK-based financiers do not necessarily supply the UK market, therefore separate financial regulation is essential to ending the UK's contribution to global deforestation.

**Due diligence obligations must go further and prevent the financing of human rights abuses and all deforestation, ecosystem conversion and degradation.** Agricultural expansion is a primary driver of land-grabs and human rights abuses against indigenous peoples and other rights-holders. One land and environmental defender was [killed every two days on average over the past decade](#).

British financiers must be stopped from investing in all deforestation, degradation, ecosystem conversion *and* human rights abuses. Proving compliance with local laws only is not enough. Deforestation has the same climate and human rights impact whether legal or not.

**Embedding 1.5°C alignment within the UK's regulatory framework is in the country's economic and security interest:**

- The Dasgupta Review called for the reorganisation of the UK economy, leading HM Treasury to commit to [a 'nature-positive' economy](#) in 2021.
- The Environmental Audit Committee has [called on the government](#) to place nature and net zero at the centre of UK financial regulation.

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- The [Climate Change Committee](#) has concluded climate risk and net-zero must be fully integrated into financial regulation to achieve the country's net zero target.

**The Bill Committee has repeatedly heard that this bill should be amended to include nature-related protections and align the UK financial sector with the 1.5°C target under the Paris Agreement.** Andrew Griffith has said 'we cannot achieve our climate goals without acknowledging the vital role of nature' and promised to report back on ways to better include nature as well as net zero in the Bill. MPs should ask how this has been achieved.

**Businesses and financiers want a robust net zero framework.** Twelve major financial institutions [wrote to the Bill Committee](#) supporting a statutory objective for net zero. In September, 100+ big businesses [worth £1.8 trillion](#) urged the Prime Minister to present a plan to meet net zero.

**The UK could take a major step towards a world leading framework by [adopting amendment NC24](#) and introducing a statutory objective that obliges regulators to prevent biodiversity loss and align the financial system with the Paris Agreement commitment to limiting global temperature rises to 1.5c.** 145 countries committed to [halt and reverse deforestation and land degradation by 2030](#) – including by re-aligning financial flows – under the Glasgow Leaders' Declaration on Forests and Land Use. Then-Chancellor Rishi Sunak promised the UK would become the first [net zero financial centre](#).

This Bill is an unmissable opportunity to deliver.

#### **Further detail and assistance:**

The Bill will be in session in the Commons on the [7<sup>th</sup> December 2022](#).

For speaking points or further information, please contact Alexandria Reid, Senior Global Policy Adviser, Global Witness, [areid@globalwitness.org](mailto:areid@globalwitness.org)