



Financial Services and Markets Bill

Report Stage, House of Lords

Time 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' redesign of UK financial regulation. This is a crucial opportunity to secure a nature-positive economy and stop illegal deforestation funded by the UK financial sector.

We urge you to support [Amendment 91](#) tabled by Baroness Boycott, Baroness Chapman, Lord Randall and Baroness Sheehan.

[Amendment 91](#) introduces due diligence obligations for UK financial institutions to prevent the financing of illegal deforestation.

New information for report stage

The amendment has retained cross-Party support in both Houses and the British public are in favour of this new regulation. Around [77% of UK savers](#) would be unhappy to discover their pension was funding deforestation and habitat destruction. Two thirds of the public polled in 2021 [supported a new law](#) to stop the financing of deforestation.

The private sector backs it too. Sir Ian Cheshire, former Chairman of Barclays UK, and [financial institutions representing £1.18 trillion in assets under management and advice](#) have publicly endorsed the amendment itself.

The text has been improved for Report Stage in two ways, chiefly based on feedback from the financial sector:

1. A 24-month delay before the due diligence obligation enters into force for financial institutions, to allow the sector to prepare
2. A requirement for the Secretary of State to bring forward any necessary secondary regulations within 12 months of the passage of the FSM Bill, enabling the creation of due diligence guidance on procedures or expectations specific to financial institutions. This allows the government the flexibility to design a regime that works to genuinely minimise the risk of financing deforestation, but does not lead to unnecessary de-risking because of incomplete

information.

The amendment seeks to position the UK financial sector competitively, at the forefront of the nature and finance movement, taking a logical first step in fulfilling the UK's commitment under the Kunming-Montreal Global Biodiversity Framework to end biodiversity loss by 2030 and the Glasgow Leaders' Declaration for Forests and Land Use.

Why it is needed

The UK is a leading financier of global deforestation and linked human rights abuses:

1. 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](#) according to Global Witness.
2. Over [£300 billion of UK pension money](#) is invested in high deforestation risk companies and financial institutions, according to Make My Money Matter.
3. The UK financial sector faces up to £200 billion in risk exposure to Brazilian beef and soy and Indonesian palm oil supply chains alone, according to WWF.

As a result, climate-critical tropical forests are shrinking, driving biodiversity loss and [threatening thousands of iconic species with extinction](#). Experts say [commodity-driven deforestation must be ended by 2025 at the latest](#) to limit global warming to 1.5°C. Agricultural expansion drives more than [90% of tropical deforestation](#).

Human rights abuses, corruption and illegality is rampant in the agribusiness sector. An estimated [69% of land conversion for agriculture](#) was illegal between 2013-19. One land and environmental defender [was killed every two days on average](#) over the past decade, according to Global Witness. Indigenous peoples are significantly overrepresented among the victims. For this reason, the new clause requires financial institutions check for the Free, Prior and Informed Consent of indigenous peoples, an existing duty under international law and the UN Guiding Principles.

Existing blueprint, high level backing

Similar legislation, Schedule 17 of the Environment Act of 2021, established new due diligence obligations for large companies to prevent the import of ‘forest risk commodities’ such soy, palm oil and beef grown on land illegally deforested under local law. The government’s own expert [Global Resource Initiative \(GRI\) Taskforce](#) recommends extending this system to financial institutions.

Sir Ian Cheshire – former Chair of Barclays and the Head of the GRI Taskforce – wrote an [open letter](#) to peers and the Minister reaffirming the need for new due diligence law:

“In essence, our regulations should ensure financial institutions do not directly or indirectly fund or support deforestation linked to forest risk commodities. In practice, this means that financial institutions should be required to assess and identify environmental and human rights risks and impacts within their portfolios and take action to prevent or mitigate those risks and publicly report on progress.... I encourage you to revisit our independent recommendations and consider them in relation to the Financial Services and Markets Bill.”

The amendment has [significant cross-Party backing](#) in the House of Commons. A version was tabled by Conservative Chris Grayling MP (see [NC24](#)) and

[received support](#) from the Labour frontbenches as well as MP spokespeople from the Liberal Democrats, Greens, DUP and Plaid Cymru. Without such an amendment the Bill leaves the UK far from delivering the ‘[net zero financial centre](#)’ and ‘[nature-positive economy](#)’ promised by the government.

The government’s response to the amendment – why it’s wrong

The government has responded to the amendment by claiming that the voluntary risk-reporting framework being developed by the *Taskforce on Nature-related Financial Disclosure (TNFD)* is needed to make a due diligence system workable. They argue the TNFD will stop UK financial institutions making these deforestation deals in the future.

Baroness Penn [said at Second Reading](#): “...*financial institutions rely on the information disclosed by companies trading in these forest-risk commodities in order to take action, so a global framework for this disclosure is needed to make any action by UK financial services and firms overseas workable. That is exactly why we are a leading backer on the Taskforce on Nature-related Financial Disclosures.*”

The Government’s own expert GRI Taskforce has already explicitly rejected the TNFD’s disclosure-based model as a solution. It told the government that [new due diligence laws are needed](#) to stop UK finance flowing to deforestation abroad instead.

At Committee Stage, Baroness Penn said the government “accept[s] that that will not solve this problem on its own but it is important to recognise it as an important building block in creating an international solution.” The government also argued that data collection will be hampered by the lack of a global disclosure framework or regulations similar to the Environment Act.

Yet financial institutions already have [ample available due diligence tools and information](#) about their exposure to deforestation and human rights

abuses. They do not need to wait for TNFD to act. In addition, the introduction of mandatory due diligence for large companies under Schedule 17 of the Environment Act has already created the necessary disclosure platform for financial institutions to access enhanced information in the future. TNFD is not necessary to do this.

Banks choose to lend to companies engaged in deforestation because they can get away with it and keep the profits under existing financial regulations in the UK.

[Read more on why the government is wrong to rely on TNFD here.](#)

Amendment 91 takes a step towards delivering on our global commitments: COP15 and COP27

The Global Biodiversity Framework negotiated at COP15 and signed by UK includes a target for governments to [introduce new regulations for financial institutions](#) to ‘Regularly monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity’ across their operations, supply and value chains and portfolios. This amendment takes a step towards supporting that commitment.

At COP26, the [Glasgow Leaders’ Declaration on Forests and Land Use](#) saw 145 countries, led by the UK, commit to halting and reversing deforestation and land degradation by 2030 ‘including by re-aligning financial flows’. It’s time for us to act on our promises.

At COP27, [the UN’s High-Level Expert Working Group on Net Zero](#) recommended new domestic regulations to stop the financial sector investing in deforestation. The UN Secretary General [called time](#) on ineffective voluntary pledges to stop deforestation.