IN ACCORD NEWSLETTER

YOUR COMPLIANCE, ESG & SUSTAINABILITY IN ACCORD

ESG ACCORD

April 2021

Financial Services Bill Amendments & Remit Letter to FCA

Peers have secured significant changes to the Financial Services Bill in the House of Lords ensuring climate considerations are part of the future regulatory framework for the UK's financial services sector (when the Bill initially entered Parliament, it had no mention of climate change).

Peers were concerned that the Bill as introduced made no mention of climate change or the environment so have tabled a series of climate change amendments. The amendments introduce provisions in law that regulators must take the UK's net zero target into consideration requirements by Jan 2022)– will need to factor in climate change considerations.

Peers also sought to ensure that regulators objectives and remits were aligned with climate goals, the Chancellor has also announced new remits for the FCA and PRA that will require them to consider climate change commitments across the whole of their remit and in all future decisions and planning.

At the same time, the CEO of the FCA announced that a dedicated director of ESG is being recruited.

Finally, peers also secured assurances that the Government would recognise the need to address climate change across the whole of the regulatory framework as part of the future consultation process.

The Financial Services Bill amendments can be found here: https://www.peersfortheplanet.org/post/peers-secure-climate-on-financial-services-bill?utm_source=APPG+NEWSLETTER&utm_campaign=3d192683af-EMAIL_CAMPAIGN_2020_05_28_10_06_COPY_41&utm_medium=email&utm_term=0_8f1635fb1a-3d192683af-183622702

Govt Press Release: https://www.gov.uk/government/news/climate-considerations-now-fully-embedded-across-uk-principal-financial-regulators

Rishi Sunak letter of remit to FCA: https://www.gov.uk/government/publications/recommendations-for-the-financial-conduct-authority-march-2021

World Bank climate policy

A revised World Bank policy on climate change commits to making financing decisions in line with efforts to limit global warming, but stops short of promising to halt funding of fossil fuels

The presentation repeated a pledge the bank made in December for an average of 35% of its financing to be climate-related over the next five fiscal years. That compares with 26% of a significantly smaller amount of lending over the last five.

Source: https://www.reuters.com/article/us-climate-change-worldbank-exclusive/exclusive-world-bank-revises-climate-policy-but-stops-short-of-halting-fossil-fuel-funding-idUSKBN2BN3HC?utm_source=APPG+NEWSLETTER&utm_campaign=3d192683af-EMAIL_CAMPAIGN_2020_05_28_10_06_COPY_41&utm_medium=email&utm_term=0_8f1635fb1a-3d192683af-183622702

The World Economic Forum supports SSB

The World Economic Forum plans to mobilise support for the Sustainability Standards Board, which will help create a global framework for sustainability reporting.

Source: https://on.ft.com/3cmFUfG

Overview of Sustainable Finance and policy from Schroders:

Clients need more transparency and better understanding of their sustainable investment options. They need clarity into the goals and strategies fund managers employ and ways to track their performance. Increasingly, many also want to know the impacts their investments deliver.

Source: https://www.schroders.com/en/uk/asset-manager/insights/markets/how-the-world-is-warming-to-sustainable-investing/

Pension Trustees urged to get ahead!

Sackers are urging trustees to get ahead, reporting scope 3 emissions an issue... governance is key.

Source: https://www.pensionsage.com/pa/Trustees-urged-to-get-ahead-of-the-game-to-meet-tight-TCFD-requirements-timing.php

PROD / MiFID II

"With regards to Distributors the focus was due diligence, the quality was found to be variable. A robust process means asset managers can establish if their chosen distributors are "fit for purpose in client onboarding and if a distributor's intended product recipient matches the product's target market. Failing to do so increases the risk that products end up in the hands of consumers for whom they are not appropriate, which could cause harm to investors".

Read the full review here: https://www.fca.org.uk/publications/multi-firm-reviews/mifid-ii-product-governance-review/printable/print

Taxonomies

EU considers labelling gas as partially sustainable under green labelling system - gas and nuclear were previously excluded. The UK will take the EU base, and will review. The UK joined the International Platform on Sustainable Finance to support and benefit from the development of common international standards on taxonomies.

Source: https://www.ft.com/content/4e42fe24-e60b-4785-9c46-a51d7d0458a1

Best Practice

Great comments in this FT Adviser article regarding best practice in ESG & Sustainable Finance for UK Financial Advisers;

Patrick Norwood, insight consultant at Defaqto, believes the regulation could be an example of good practice for advisers. He said:

"[We] think it should be good practice for financial advisers to understand their clients' ESG requirements and be able to research solutions that would fit those….Even if [the regulation is] not law, it should be good practice and by following high standards it could be a competitive advantage."

Source: https://www.ftadviser.com/investments/2021/03/17/advisers-warned-not-to-disregard-europe-s-esg-rules/

Compliance Consultants:

Have you booked your In Accord Training sessions with us yet?

We deliver 1 hour sessions covering background and basics for ESG & SF, processes for giving advice, exploring the details of our two stage Fact Find / Triage

COP26

You've no doubt heard us talking about COP26, here's a link to explain what and why.

Source: https://www.gov.uk/government/topical-events/cop26

SDGs

A great overview infographic of the UN Sustainable Development Goals. The SDGs can be used as a framework for investing, many funds align themselves to the goals - but what are the goals?

Answers here: https://datatopics.worldbank.org/sdgatlas/

And finally, answers to Lee's question please!

From our LinkedIn:

Here's an ESG advice question I'd like to pose to everyone. Thoughts please!

Assumptions. A financial adviser is keen that clients don't get involved in ESG. She asks every client the question (new SF rules have arrived), tries to remain neutral when explaining but when asked about performance she is a little negative on potential risks compared to 'normal' investment. The result is her clients say they don't want ESG.

OK, let's jump forward 3 years. The adviser is doing annual reviews. Now 95% of all investment funds have some form of ESG process on them!

Here's my question (if you haven't guessed):

If the adviser hinted to clients that ESG/Sustainable might have performance issues, how does she back pedal given that the investable universe is now only 5% of funds? Does she:

- Say that performance is now great (without claiming any future performance knowledge)

- Tell the clients they are wrong and should be ESG/Sustainable with their money,

- Invest only in the 5% of funds that aren't ESG?

The adviser probably doesn't have an ESG process in place so that means any clients that change their mind will challenge her whole advice process and compliance procedures.

Answers to: lee@esgaccord.co.uk

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