ESG ACCORD

Newsletter 1st July 2021

•••**YOUR COMPLIANCE, ESG & SUSTAINABILITY IN ACCORD**

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Hello from ESG Accord

OK ...hands up, who has read the FCA CP21/17 already? The proposed TCFD scope will cover 98% of AuM in both the UK asset management market and held by UK asset owners, representing £12.1 trillion in assets managed in the UK.

So far, we are left thinking about the scale and reach of the adviser market here i.e. a conservative estimate of AUM for the Financial Advice sector stands at approximately £272Bn (end 2019 https://www.pimfa.co.uk/about-us/industry-statistics/) and there were 27,557 financial advisers in the UK in 2019 (https://www.nextwealth.co.uk/financial-advice-market-trends-uk/).

The general feeling is - Ok, we understand that the policy makers will give us the taxonomy and disclosure regulations and that the interests of clients and the infusing of ESG & Sustainable Finance values will come from conduct principles. And so in the meantime, we attempt to glean pieces of insight from CP21/17....

Such as "Our proposals aim to increase transparency and enable clients and consumers to make better informed decisions"

And from the draft Handbook text, Content of TCFD product reports 2.3.9 -

(1) A firm must include in its TCFD product report for each TCFD product information according to the following metrics, using the calculations contained in ESG 2 Annex 1 [and having regard to the TCFD Guidance on Metrics, Targets, and Transition Plans, as relevant]:
(a) scope 1 and 2 greenhouse gas emissions;
(b) scope 3 greenhouse gas emissions; FCA 2021/XX Page 14 of 22
(c) total carbon emissions;
(d) total carbon footprint; and
(e) weighted average carbon intensity.

Effectively, in theory, does this means advisers will be able set minimum levels of metrics or targets / emissions for a portfolio solution - on a best in class style / screening method? Interesting things to come in our Values Questionnaire updates for sure.

CP21/17: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers https://www.fca.org.uk/publications/consultation-papers/cp-21-17-climate-related-disclosures-asset-managers-life-insurers-regulated-pensions

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Great article by Elizabeth Meager ... and adding some of our own points -

What can you do when there are no numerical thresholds or targets for light or dark green funds – just a change in wording?

Using a robust compliance framework for Sustainability Preferences & corresponding Due Diligence can help sort the Article 8 funds which "promote" environmental or social characteristics from the Article 9 funds which contribute "to an environmental or social objective"...

https://capitalmonitor.ai/institution/government/is-sfdr-failing-eight-in-ten-sustainable-funds-in-europe-hold-fossil-fuel-stocks/

A couple weeks ago Lee was interviewed by Lawrence Gosling for the GrowthInvest spotlight series on our very favourite subject: ESG & Financial Advice

Link to interview: https://lnkd.in/d4BD6na

Why should you watch? Here is a list of the questions that Lee answers -

- Is this a compliance issue?
- What disclosure changes do advice firms need to make?
- How can advisers determine clients' ESG & SF values?
- How does this feed into PROD and Due Diligence requirements?
- If an advice firm already includes the ESG/Ethical question – will this be enough under the new requirements?
- Is ESG and Sustainable Finance just another fad that will disappear in a few years so I can get back to 'normal'?
- Our firm currently has its own CIP, so will we have to develop something similar for ESG/Sustainable Finance?
- How do I research Investment solutions to meet each client's sustainability preferences?
- What does the FCA suggest advisers do now?
- Does the guidance to advisers differ by the nature of the advice – i.e. is investment advice 'different' from mortgage advice?
- How would you suggest advisers tackle this subject in the context of growth capital investing like EIS or VCT?

Great to see this by Green Finance Institute. Yes to transparency & innovation - also a big thing for risk mitigation as products launch into the market with preferential rates for greener rated properties/upgrades - the Sustainable Finance questions need to be asked and recorded (mortgages and equity release).

https://www.linkedin.com/posts/green-finance-institute_unlocking-the-potential-of-the-uks-green-activity-6815279713947406336-X8Ti

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Many believed the pandemic's economic pain would be shared. But richer families, not spending on restaurants and travel, started saving money, leading to the boom in the housing market we're seeing now.

Who are not benefitting? Low-income workers https://on.ft.com/3gYSwft

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And this is why we launched our Mortgage Triage & VQ -
New research by Hodge indicates that portfolio buy-to-let landlords are responding to a changing market and are starting to consider the green credentials of homes, along with rental yield and opportunity for capital growth, when making investment decisions.

https://ifamagazine.com/article/buy-to-let-landlords-starting-to-rate-environmentally-friendly-properties-among-top-considerations-when-investing/

Some very startling adviser numbers in this article considering the regulatory shifts for sustainability preferences and the global drive to mobilise private finance.

Invesco, one of the world's largest and leading independent investment managers revealed findings of its new comprehensive Research in Finance study at its annual global ESG conference, analysing the attitudes of UK IFAs and end investors with regard to Sustainable Investing (SI).

https://ifamagazine.com/article/advisers-cite-lack-of-knowledge-as-biggest-barrier-to-sustainable-investing-research-reveals/

We'd love to hear from you! Please get in touch via admin@esgaccord.co.uk if you have any topics or questions you'd like covered in our newsletter.