A strategy for positive change: our ESG priorities

Corporate documents
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Our environmental, social and governance (ESG) strategy sets out our target outcomes and the actions we expect to take to deliver these. Our aim is to support the financial sector in driving positive change, including the transition to net zero.

Introduction

There is no doubt that the financial sector has an important role to play in helping the economy adapt to a more sustainable long-term future.

Ahead of the United Nations Climate Change Conference (COP 26), there has been a strong focus on climate change and the role of finance in supporting the transition to a net zero economy.

Companies and consumers are increasingly looking beyond climate change too. They are also considering wider environmental issues, such as nature and biodiversity, as well as social and governance issues, such as diversity and inclusion, the living wage, fair taxation and supply chains. And there is growing attention on the need for a 'just transition', which considers the social consequences of the shift to a net zero economy.

Actors across the spectrum of financial services can be a force for good in this area. Institutions large and small can use their business decisions, their innovation and creativity, and their voice and their influence, to encourage positive change.

But there is a risk of harm if the financial sector responds to rising consumer demand and awareness of ESG issues without a supportive regulatory foundation and adequate guard-rails.

For instance, consumers, industry participants, civil society, regulators and the media are all increasingly questioning the integrity of some of the 'green' claims made by companies and financial firms.

So, ESG matters are high on the regulatory agenda. If the financial sector is going to help support the transition to a more sustainable future, market participants and financial services firms need high quality information, a well-functioning ecosystem and clear standards. And consumers need to be able to rely on firms to take ESG seriously, avoid 'greenwashing' and deliver on their ESG promises.

Executive summary

Our ESG strategy

'Transparency' and 'trust' have been key themes of our work on climate change and ESG, reflecting the initial priorities we set out in October 2019 (FS19/6 [1]) and building on our extensive work over the years on corporate governance, senior manager responsibilities and culture and purpose.

These remain core areas of focus, but our work is moving into a new phase. In mid-2021, we welcomed our first Director of ESG, Sacha Sadan. Leveraging the breadth of our powers and tools, Sacha has a mandate to embed ESG considerations, seamlessly and comprehensively, across our functions: a 'golden thread' approach.

We are already working hard to ensure that we have the right arrangements and capabilities in place across the organisation to respond to the Chancellor's expectation in our latest remit letter that we 'have regard' to the Government's commitment to a net zero economy by 2050 in all our regulatory activities.

But as society and the financial sector look beyond climate, we need to ensure that these arrangements are scalable to deliver a consistent, coherent and cross-cutting approach to ESG issues more broadly.

So, building from our work so far, we have developed a refreshed ESG strategy. The strategy sets out how we plan to deliver on the target ESG-related outcomes included in our Business Plan 2021/22 [2], along with some core principles that we have applied to identify the key themes of our work programme and our near-term priorities.

Our work is based on 5 core themes:

- **Transparency** – promoting transparency on climate change and wider sustainability along the value chain
- **Trust** – building trust and integrity in ESG-labelled instruments, products and the supporting ecosystem
- **Tools** – working with others to enhance industry capabilities and support firms' management of climate-related and wider sustainability risks, opportunities and impacts
- **Transition** – supporting the role of finance in delivering a market-led transition to a more sustainable economy
- **Team** – developing strategies, organisational structures, resources and tools to support the integration of ESG into FCA activities

As we deliver our strategy across these themes, we are collaborating with the Government, other UK regulators, industry and other stakeholders to ensure UK financial services and the UK regulatory regime are at the forefront of ESG internationally.

We are also working actively with our international partners to develop robust and commonly agreed international standards on ESG that can serve global markets effectively. We want UK consumers, financial services firms and securities issuers to interact and operate within a world-leading system.

And we are looking closely at how technology, innovation and a data-led approach can be harnessed to support the integration of ESG both across markets, and in our regulation.

Our strategy will continue to develop as we respond to – and deepen our knowledge, resources and understanding of – the changing landscape. We expect to provide further detail and granularity in certain areas as our thinking evolves – most notably, our long-term objectives and priorities under each of the E, S and G dimensions; as well as our success measures and performance indicators.

Overview

This page provides a high-level overview of our ESG strategy. We set out the outcomes we want to achieve and the strategic themes and key actions we expect to take to deliver these. While we will pursue these outcomes over multiple years, we have identified a number of interim milestones in the coming period. Our ESG strategy may be of particular interest to:

- listed companies and their advisors

- regulated financial services firms
- trade associations
- interest groups, civil society and academics
- professional services firms and other service providers
- Government and other regulators

We will monitor progress against our commitments and measure the success of our interventions. We will provide interim updates as part of our Business Plan and Annual Report in 2022, with a more detailed stock-take on progress in 2023.

We look forward to working with stakeholders to encourage the financial services sector – and wider society – towards a more stable and sustainable future.

Context

What we mean by ESG and sustainability

ESG and sustainability are hugely important. But terms such as 'climate', 'environment', 'sustainable' and 'ESG' are often used loosely across the financial sector; and sometimes interchangeably.

There is of course an overlap between the terms. Climate change is a core focus of environmental work, which is itself one pillar of ESG. And ESG captures the key dimensions of wider sustainability; that is, how people, planet, prosperity and purpose come together to help enable 'the needs of the present [to be met] without compromising the ability of future generations to meet their own needs' (see the United Nations Our Common Future report [3]).

Values are embedded in ESG. But importantly, the scope of ESG is much wider.

The growing focus on ESG

In our 2020 Financial Lives Survey, almost two thirds of participants reported that they worry about the state of the world and feel personally responsible for making a difference. Four out of 5 respondents consider environmental issues important and believe that businesses have a wider responsibility than simply to make a profit.

These beliefs are starting to influence individuals' financial decisions. For example, according to the Investment Association, net retail sales [4] of UK responsible investment funds reached almost £12 billion in 2020, accounting for 38% of total net retail sales.

Societal expectations are matched by public policy and regulatory developments. For instance, in 2019, the UK was the first major economy to introduce a legislative commitment to a net zero economy by 2050.

More recently, the Government has raised the level of its ambition, confirming a carbon emissions reduction target of 78% of 1990 levels by 2035. The Government's policy direction has triggered policy and regulatory measures to green the financial system.

The focus is also extending beyond climate. Nature and biodiversity are gaining attention. And social and governance issues are becoming more prominent – including recovery from the pandemic, and promoting diversity, inclusion, fair taxation and workers' rights.

The scale and urgency of the climate challenge rightly demands priority attention. However, since wider environmental and social matters are increasingly central to economic and financial decision making, our work too must encompass ESG considerations beyond climate change.

As a regulator, we can set requirements and supervise proactively to promote firm behaviour in line with our expectations. But ultimately, a firm's own governance and culture will be critical drivers and enablers of its performance on environmental and climate matters. And on its ability to drive positive change, for the benefit of its shareholders, clients and consumers, employees, and wider society.

In undertaking our work on ESG, we will consider how healthy firm culture can help to maximise the impact of our interventions.

Our work on climate change and ESG

Parliament has set us the strategic objective of ensuring relevant markets work well. To support this strategic objective, we have three operational objectives. These are to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system, and promote effective competition in the interests of consumers.

As ESG considerations increasingly influence business and risk decisions in the real economy and the financial sector, they have the potential significantly to influence the integrity of our markets.

And as product offerings and firm behaviour evolve, we need to ensure that ESG claims and credentials stand up to scrutiny, that consumers' interests are protected, and that competition remains effective in the interests of consumers.

Reflecting the level of its ambition, the Government has also raised its expectations of regulators. In our latest remit letter [5], received in March 2021, the Chancellor set a clear expectation that we should 'have regard' to the Government's net zero commitments in all our regulatory activities.

Building from the FCA's extensive and longstanding experience in areas such as governance, culture and purpose, we began to deepen our engagement on ESG issues in 2018.

We sought feedback on regulatory priorities in this area with the publication of a Discussion Paper on Climate Change and Green Finance (DP18/8 [6]). We set out our initial commitments in a Feedback Statement (FS19/6 [1]) in October 2019, articulating our overarching objective in the following terms:

> 'We want to ensure our regulatory approach creates an environment where market participants can adequately manage the risks from moving to a low carbon economy and are able to capture opportunities to benefit consumers. More broadly, we want to help…accelerate the transition to a net-zero economy.'

In FS19/6, we explored the outcomes we are looking to achieve as a regulator and set out our initial priorities, with a focus on:

- disclosure and transparency
- integrating consideration of climate change in firms' business, risk and investment decisions – linked also to FS19/7 [7] on wider investor stewardship
- promoting consumer access to genuinely green products and services

We have pursued these priorities under 3 broad strategic themes: 'Transparency'; 'Trust' and 'Tools', as articulated by our Chief Executive Nikhil Rathi in his Green Horizon Summit speech [8] in November 2020. Here we provide an update on how we have delivered on our initial priorities and commitments.

We have also prioritised work on diversity and inclusion. Jointly with the Bank of England and PRA, we published a Discussion Paper (DP21/2 [9]) in July 2021 seeking views on our plans to improve diversity and inclusion in financial services. This consultation closed in September and we are currently reviewing responses.

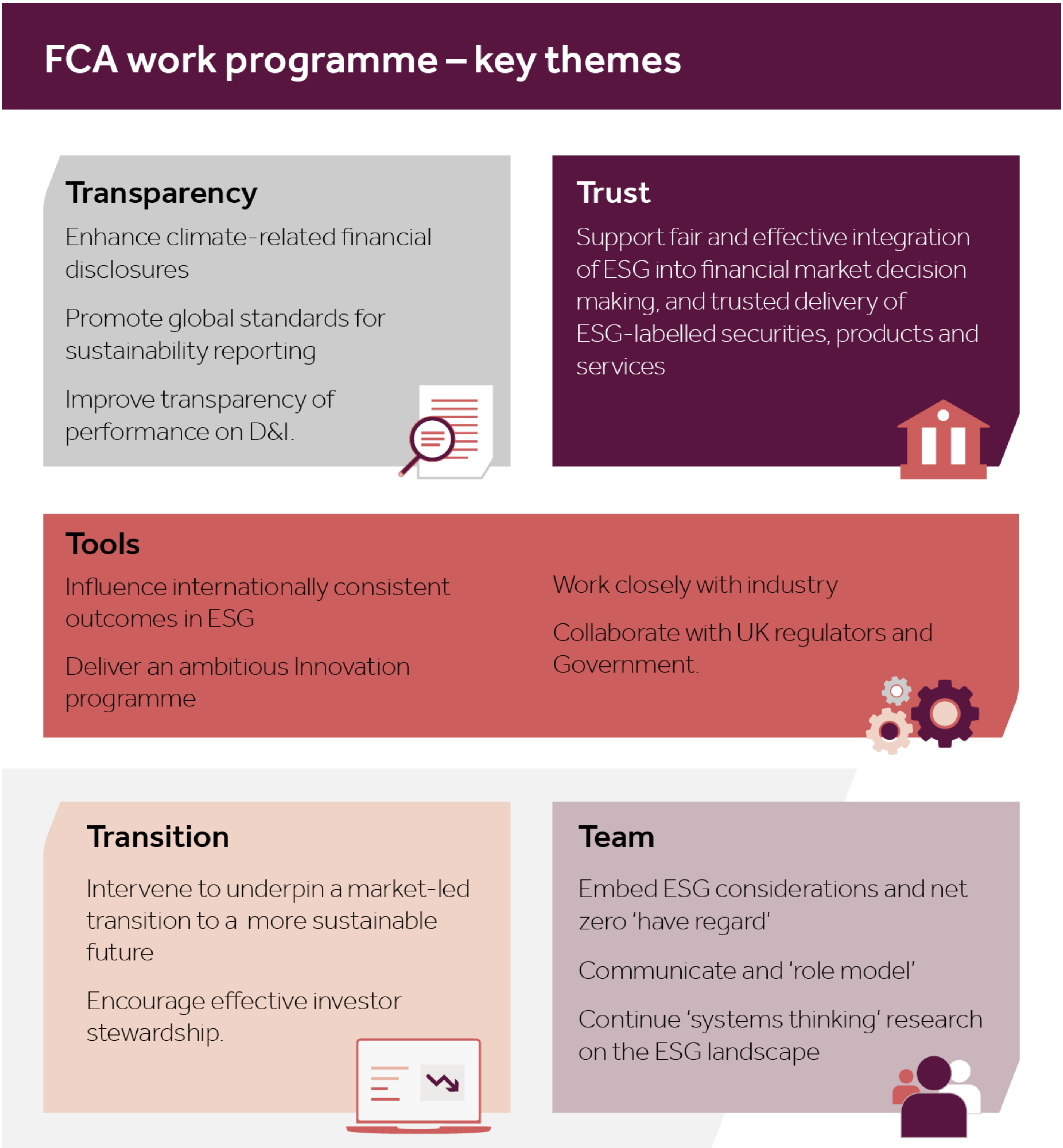
Diversity and inclusion will remain a core area of focus for us. We welcome feedback and data which could help us develop policy in this space.

Our ESG strategy

This is clearly a very dynamic space. So, building on the priorities we have identified and how these group thematically, we have refreshed our ESG strategy. This will drive our work programme in the coming period.

In this section, we set out:

- the outcomes we are seeking to achieve, referencing the commitments in our Business Plan 2021/22
- the core principles underpinning the selection of our priorities
- the strategic themes we are pursuing



Infographic describing the 5 themes of transparency, trust, tools, transition and team.

Our Business Plan commitments

As noted in our Business Plan 2021/22 [2]:

> 'Financial services and markets have a central role in the transition to a low carbon economy and a more sustainable future. The Government has committed to achieving a net zero economy by 2050. We will support this aim by adapting

our regulatory framework to enable a market-based transition.'

Consistent with our statutory objectives, we are targeting potential harms to market integrity and consumers as companies and firms adapt to the unfolding ESG landscape. We have committed to pursuing a series of outcomes in line with our objectives. We will pursue these outcomes over multiple years, but have identified a number of interim milestones in the coming period.

Spanning the scope of our influence as a regulator – from listed companies, to regulated firms and markets, to consumers – our target outcomes are:

- high-quality climate- and wider sustainability-related disclosures to support accurate market pricing, helping consumers choose sustainable investments and drive fair value
- trust and consumer protection from mis-leading marketing and disclosure around ESG-related products
- that regulated firms have appropriate governance arrangements for more complete and careful consideration of material ESG risks and opportunities
- active investor stewardship that positively influences companies' sustainability strategies, supporting a market-led transition to a more sustainable future
- integrity in the market for ESG-labelled securities, supported by the growth of effective service providers – including providers of ESG data, ratings, assurance and verification services
- innovation in sustainable finance, making use of technology to bring about change and overcome industry-wide challenges

We also committed to enhancing 'our role as a facilitator of sustainability in financial markets and firms by acting as a convener, agent of change and role model – including by working towards publishing a Climate Change Adaptation report later this year, as well as our own report aligned with the TCFD's recommendations in 2022'. Our Climate Change Adaptation repor [10]t was published in October 2021.

In addition, the Business Plan identified a set of target outcomes on diversity and inclusion, both for us as an organisation, and across the financial sector. Diversity and inclusion is a key component of ESG – both in its own right, and as an enabler of creative solutions to other environmental and social challenges. The target outcomes for the sector are:

- regulated firms and listed companies have more diverse representation at all levels
- regulated firms and listed companies foster cultures that are inclusive so that staff can share their diverse experiences and backgrounds
- firms design and deliver products that reflect the diverse needs of consumers, offer fair value and are delivered in a fair and accessible way

We are also taking into account commitments that we made in our response [11] to recommendations from the Treasury Committee inquiry into the decarbonisation of the UK economy and green finance. And we have considered carefully the ESG-related recommendations in the Kalifa Review of UK Fintech [12].

Infographic describing our business plan 2021/22 outcomes for ESG

Core principles

We have developed a programme of work to deliver the outcomes we set out in our Business Plan. In doing so, we have had regard to the following core principles:

Global solutions to global problems

- The United Kingdom is a global financial centre and the securities issuers and financial services firms that we regulate operate in global markets. So, we will continue to look outwards, playing a leadership role internationally and helping to drive progress towards global solutions in ESG.
- We are committed, as far as possible, to implementing regulations that align with international frameworks and standards. To develop and implement bespoke local solutions in isolation would lead to fragmentation, increase costs for businesses, and increase the risk of regulatory arbitrage opportunities– to the potential detriment of the ESG outcomes we aim to achieve.

Walking the walk

- The commitments under our refreshed strategy span our interests both as a regulator and as an operating entity. We will not impose obligations and expectations on market participants, regulated firms or security issuers (both in how they operate as entities, and in how they embed ESG considerations in the products and services they provide), if we are not prepared to take similar steps ourselves.
- We are committed to improving our own diversity and inclusion, to ensure that we have an inclusive working environment and that our people reflect the society we serve.

Building an ESG capability beyond climate change

- Much of our work to date has focused on climate change, reflecting the urgency of the climate challenge, the milestone of the UK hosting of the UN Climate Summit (COP 26), and the heightened expectations in this area among Government and industry stakeholders. However, we are committed to building resources and capabilities on ESG beyond climate change, and ensuring that our regulation takes a broader ESG perspective.
- We will leverage the extensive work we have already done recently, and over the years, on governance, diversity, culture and purpose. This is essential as listed companies and the financial sector respond to society's evolving expectations on environmental and social matters.

Supporting positive market-led solutions

- Consistent with the powers and objectives Parliament has given us, we facilitate positive market-led solutions where possible, collaborating closely with Government, other regulators, industry and other stakeholders.
- Rather than seeking to dictate outcomes, we focus our interventions on building sound regulatory foundations and setting appropriate guard-rails to make relevant markets function well – including as they adapt to new Government policy.
- Where we consider that regulatory intervention is necessary, we aim to strike the right balance between principles and prescription. In such a fast-moving space, to codify too much into the regulatory framework too soon could stifle innovation and hard wire the current state of knowledge and understanding.
- At the same time, we aim to ensure that our interventions are coherent with, and leverage, existing market practices both domestically and internationally. This will help to manage costs and guard against potential market distortions.

Influence beyond rulemaking

- We will take full advantage of the breadth of the FCA's regulatory tools – both formal and informal – to deliver our target ESG outcomes. This will allow us to be more flexible and react more quickly to change in an area where we expect rapid innovation and continuously improving understanding of the data.
- We will of course continue to drive changes in behaviour through formal rulemaking. But we recognise that we can have an impact in other ways too and that we will achieve better outcomes by working collaboratively with others. For instance, we can:
  - use our convening powers
  - support creative new ideas through our Innovation programmes
  - set expectations through our supervisory processes and channels for less formal influence and engagement
  - exert influence as a thought-leader and a role model, and by partnering and collaborating with others, including other financial regulators.

Maximising impact

- By deepening our understanding of the ESG ecosystem, we will target our interventions on those sectors and activities where we will have the greatest impact (for instance, by virtue of the intermediary role they play).
- We will also:
  - tailor our regulatory and supervisory approach accordingly to acknowledge the different circumstances, needs and capabilities of smaller and medium-sized organisations
  - as appropriate, highlight best practice and put pressure on laggards
  - draw on principles of behavioural economics to understand and influence behaviours that drive our desired outcomes

This is consistent with how we are transforming as an organisation.

Readying for a digital and data-led world

- Consistent with the transformation of the FCA as an organisation, we will take an innovative approach to how we embed ESG in our regulatory activities – including our supervision and oversight of securities issuers, market participants and regulated firms – and how we help deliver solutions and tools for the financial markets.
- We will hardwire data-led approaches into our processes from the initial proposal through to post-implementation review. We will leverage the world-leading capabilities of our Innovation Division as part of this.

Our ESG strategy's 5 themes

We have built on the core themes of our previous strategy: Transparency, Trust and Tools. These remain core areas of focus, but we have evolved the priorities under each of these themes in line with our target outcomes and the principles set out above.

We have 2 additional themes. These aim to:

- support a market-led transition to a net zero, sustainable future (Transition)
- ensure that we have the right organisational structures, resources and capabilities in place to appropriately integrate net zero and ESG considerations in our work across the FCA (Team)

Key actions

In this section, we elaborate on some of the key actions we are taking. We focus on near-term priorities and milestones, organised under each of our 5 themes.

It is not an exhaustive summary of our ESG work programme. We are engaged in other ESG-related work, both internally and with domestic and international partners. And we will continue to build on this programme of work as this dynamic space evolves. So, there will be more to come.

Transparency

Rationale

This theme is about promoting transparency on climate change and wider sustainability along the value chain.

A market-led transition to a more stable and less carbon-intensive economy – and a more sustainable future – will require high quality, consistent and comparable information on how climate-related, and wider ESG-related risks, opportunities and impacts are being managed across the economy and the financial sector. Better corporate disclosures will inform market pricing and support business, risk and capital allocation decisions.

This is reflected in the UK's TCFD implementation strategy and its wider ambitions for sustainability disclosures. The Government has committed to mandatory TCFD-aligned disclosure obligations across the UK economy by 2025. Building on this, in October 2021, the Government set out plans for economy-wide Sustainability Disclosure Requirements (SDR) as part of a Roadmap to Sustainable Investing [13]. The SDR aims to ensure that 'the information exists to enable every financial decision to factor in climate change and the environment'.

Enhanced disclosures to clients and consumers will help them make more informed financial decisions – in turn enhancing competition between providers, protecting consumers from unsuitable financial products (see 'Trust'), and encourage the flow of funds to more sustainable projects and activities.

There have been positive developments in ESG disclosures, especially on climate change. But the needs of investors and other providers of capital are still not being adequately met. This, at least in part, reflects the rapid pace of change. Regulatory intervention will accelerate progress.

Key actions

Enhance climate-related financial disclosures

Implement the TCFD's recommendations in our Handbook, for listed companies and FCA-regulated asset managers and asset owners.

Target milestones: Policy Statement, end-2021; TCFD-aligned rules phased in from January 2022

At the end of 2020, we introduced a new 'comply or explain' disclosure rule for our most prominent listed companies (PS20/17 [14]).

During the second half of 2021, we have been consulting on proposals to:

- extend the application of our existing disclosure rule to issuers of standard listed equity shares (CP21/18 [15])
- introduce new client-facing disclosure requirements and guidance for asset managers, life insurers and FCA-regulated pension providers (CP21/17 [16])

These consultations closed in September 2021. We will publish policy statements finalising our new rules by the end of the year.

As part of our new prudential regime for MiFID investment firms (the Investment Firms Prudential Regime), we will be consulting on the introduction of ESG disclosures for these firms in 2022 (see 'Transition').

Roll out appropriate oversight, supervision and enforcement mechanisms to improve the quality of disclosures.

Target milestone: Primary Market Bulletin article, November 2021

As new disclosure rules are introduced over the coming years, we will implement successively oversight, supervision and enforcement mechanisms to improve the quality of disclosures. Our rules for premium listed companies are already in force and the first disclosures will be made in early 2022. For these disclosures, we will:

- assess how well listed companies have complied with the new requirements
- identify areas of concern and clarify good practice

Given the Financial Reporting Council's (FRC's) role in review and oversight of corporate reporting, we collaborate closely with FRC colleagues in this activity. We will release more information (for listed companies and their advisers) on our approach to monitoring compliance with the new premium and proposed standard listing rules via our Primary Market Bulletin in November 2021.

Over time, we also plan to apply data analytics and machine learning techniques to detect where listed companies may not be complying with our rules. This will help identify poor practice at a much earlier stage, so as to prevent harm to investors and protect market integrity.

The introduction of our TCFD-aligned disclosure rules for premium-listed companies has been mirrored in the UK digital reporting taxonomy (provided by the FRC, and adopted by us for reporting by companies admitted to trading on regulated markets). This facilitates the digital structuring of these disclosures and their distribution (through companies' accounts via the National Storage Mechanism (NSM)) into the market.

Quality structured data aligned with regulation is key to the FCA's goal of data-led regulation. We are also considering how we can leverage the NSM to support the emergence of data service providers – thereby improving the flow of information along the investment chain.

Promote global consistency and comparability in corporate reporting on sustainability matters

We aim to do this by:

- **working actively with the International Organisation of Securities Commissions (IOSCO), the Financial Stability Board (FSB) and the International Financial Reporting Standards (IFRS) Foundation**
- **encouraging rapid progress beyond climate-related disclosures towards wider environmental and social disclosures**
- **promoting effective audit and assurance of sustainability-related disclosures, working with domestic and international partners**
- **developing UK implementation plans for forthcoming global standards, jointly with Government and other regulators (including interim measures, as appropriate)**

Target milestone: Ongoing through 2022/23 as IOSCO/IFRS initiatives proceed

Consistent with our pursuing 'global solutions to global problems', we have been influencing international efforts towards a common global baseline of investor-focused sustainability-related reporting standards. To ensure we leverage existing industry capabilities, we are promoting a solution that builds on the TCFD's recommendations and other existing frameworks (as well as ongoing work by the Taskforce on Nature-related Financial Disclosures [17]).

We co-chair a workstream on sustainability reporting under IOSCO's Sustainable Finance Taskforce. In a report released in June 2021 [18], IOSCO set out the outcomes of this work so far. The report elaborated on IOSCO's vision for an International Sustainability Standards Board (ISSB) to sit alongside the International Accounting Standards Board under the IFRS Foundation.

Strong momentum has built behind this work in recent months. Consistent with IOSCO's vision, the IFRS Foundation has set out its strategic direction and has been working towards establishing the new Board at COP26 in November 2021.

Jointly with other UK authorities, we are committed to adopting the ISSB's standards. In its Roadmap to Sustainable Investing [15], published in October 2021, the Government confirmed that it expects the ISSB standards to form a 'core component' of the SDR and the 'backbone of its corporate reporting element'. We will work with the FRC and others to establish and implement an appropriate oversight and enforcement mechanism for disclosures against the new standards.

In our work with IOSCO, we are also examining the framework for audit and assurance of sustainability reporting. We consider that audit and assurance have a critical role to play in promoting high-quality disclosures that are appropriately integrated with financial reporting.

Furthermore, continuing the important theme of digitisation of data, the application of structured data formats to facilitate the machine-readability of sustainability-related disclosures in accordance with the new standards would enhance their usefulness to support decision-making across financial markets. As new sustainability-related disclosure standards are introduced, we will encourage the use of digital taxonomies, both internationally and domestically.

Enhance transparency of listed companies' and regulated firms' diversity and inclusion performance

Target milestone: Ongoing through 2022; Policy Statement/Feedback Statement, Q1 2022

In July 2021, we published a consultation paper (CP21/24 [19]) on proposals to improve transparency on the diversity of listed companies' boards and executive management teams. We also published (in collaboration with the Bank of England) a discussion paper (DP21/2 [10]) examining how we can accelerate the pace of meaningful change on diversity and inclusion and what role we can most usefully play to support this change.

Better, comparable information on board and executive diversity will allow investors to make investment decisions in line with their values, reduce investor search costs, and inform shareholder engagement. Over time, we expect enhanced transparency to strengthen incentives for companies to progress toward greater diversity on their boards. This may have broader benefits in terms of the quality of corporate governance and company performance.

More broadly, over time, we expect that SDR will help progress key social and governance objectives – including by requiring information that extends beyond financial risks and opportunities, and toward a more complete picture of the impact that businesses have on the environment and society. And we will take note of the assessments that the FRC undertakes of companies' reporting against the Corporate Governance Code and work with the FRC to advance corporate governance and ESG objectives.

Trust

Rationale

Here, the focus is on building trust and integrity in ESG-labelled instruments, products and the supporting ecosystem. This is relevant to all of our operational objectives: protecting consumers; protecting and enhancing market integrity; and promoting effective competition in the interests of consumers.

Market participants and consumers must be able to trust green and other ESG-labelled financial instruments and products. They must be able to rely on them to display the sustainability characteristics that they claim to have, and to perform as they expect.

So, we aim to ensure that the financial sector operates fairly, effectively and with integrity. And that it delivers high-quality instruments, products and services that genuinely meet investors' ESG preferences and are free from 'greenwash'.

Key actions

Create the right conditions for fair and effective integration of ESG into financial market decision-making, and trusted delivery of ESG-labelled securities, products and services, including the following actions.

Develop a policy approach to ESG governance, remuneration, incentives and training/certification in regulated firms

Target milestone: Begin stakeholder engagement, Q2 2022

We see healthy culture as critical both to consumer protection and well-functioning markets. A firm's governance, purpose and culture are central to its values as an organisation; to how its people conduct themselves; and to how it embeds ESG considerations in the design and delivery of its products and services for the benefit of clients and consumers.

So, we will do more work to encourage a strong 'tone from the top' on ESG, supported by clear accountability for ESG claims and promises, and the right incentives – including through remuneration. This work will build on the extensive work that we already do on governance and professionalism. The stakeholder feedback we are already seeking on diversity and inclusion is part of this.

As the focus on ESG grows, we need to guard against 'competence-washing'. That is, we need to promote genuine capability-building across the financial sector, including through functional training, and potentially certification. Firms may also need to consider general staff training on climate change and net zero, and ESG more broadly – just as we are committed to doing within the FCA (see 'Team'). This will help to build awareness and ensure the organisation's objectives and values are embraced by staff and embedded across functions.

Support the Government's ambition to make the UK a world leader in green finance – including delivery of a UK Taxonomy for sustainable activities, Sustainability Disclosure Requirements for businesses and investment products, and a new sustainable investment label

Target milestone: Consultation Paper on disclosure rules and labelling, Q2 2022

The Government's SDR regime will include entity- and product-level disclosures by asset managers and other institutional investors. Alongside these, the Government's Roadmap to Sustainable Investing [21] also elaborated on plans for work on sustainable investment labels and expectations of investment advisors. We will have an important role in delivering on these ambitions. We have released a discussion paper (DP21/4 [19]) seeking feedback on the shape of the regime, ahead of consultation in Spring 2022.

This package will increase the availability of consistent and comparable sustainability-related financial information along the investment chain. It will also help to build trust in the market for ESG/sustainable investment products by helping to combat misleading claims.

We will need to ensure that consumer-facing communications under the regime are accessible and decision-useful. The design of these will be informed by a second phase of consumer behavioural experiments to be carried out in late 2021/early 2022, building on consumer research [20] published in July 2021.

Challenge authorised fund managers' response to our Dear Chair Letter and guiding principles for the design, delivery and disclosure of ESG/sustainable investment products

Target milestone: Ongoing through 2022

SDR and sustainable investment labels will be complementary to, and build on, our existing rules framework. We recently issued a letter to chairs of authorised fund managers [21], drawing firms' attention – through a set of guiding principles – to how we expect existing rules to be applied in the ESG context.

We noted the poor quality of some of the applications for authorisation of ESG-oriented funds that we have received. And we reiterated our expectation that firms should be putting consumers at the heart of their businesses, offering products and services that are fit for purpose and which they know represent fair value.

We plan to follow up on this letter and the guiding principles in our authorisations processes and embed them in our supervisory engagement.

Encourage an effective ESG ecosystem – including by supporting the integrity and effectiveness of ESG data, ratings, assurance and verification services

Target milestone: Feedback Statement on ESG issues in capital markets, Q2 2022

As industry participants more fully integrate ESG into their activities and expand their ESG-focused product offerings, they are increasingly reliant on third-party ESG data services, as well as ESG ratings and benchmark indices. So, it is increasingly important that these services are delivered in a fair, effective and transparent way.

ESG matters are, by their nature, wide-ranging and complex. As a result, each data, ratings or benchmark provider makes different choices about which ESG factors to consider in its methodology. And which metrics to use to measure performance and how to weigh them. This can have a direct effect on investment decisions and capital flows.

In the case of ESG ratings, different methodological choices result in a low correlation between different providers' ratings. Consequently, without transparency of these methodologies, it may be difficult to interpret and compare outputs across providers, potentially leading to harms for consumers.

We considered these topics in CP21/18 [17]. We called for feedback on whether there is a case for regulatory intervention. We are currently analysing responses and will feed back by mid-2022. The Government similarly noted, in its Roadmap to Sustainable Investing [24], that it is important providers deliver ESG data and ratings transparently, and that they have strong governance and management of conflicts of interests. The Government is therefore considering bringing these firms into the scope of FCA authorisation and regulation.

Again, consistent with the principle of global solutions for global problems, we support internationally coordinated solutions in this area. We have therefore, in parallel, contributed to IOSCO's work [20] on ESG data and ratings.

We will also continue to consider our role in supporting other enhancements to the ESG ecosystem. For instance, we are actively engaged in industry dialogue on matters such as voluntary carbon markets, and ESG in derivatives and securities lending markets.

Help firms navigate competition law issues when pursuing ESG objectives, providing guidance and advice as appropriate

Target milestone: Begin stakeholder engagement, Q4 2021/Q1 2022

Cooperation between industry participants (and between industry and Government /regulators) is essential if we are to tackle ESG challenges effectively. The potential tension between cooperation and competition law has been much debated and we have seen some examples of this tension in practice.

We have considered how we can address this potential tension to support our ESG objectives. Firms can cooperate to pursue certain objectives but must do so within the parameters set out in law. If stakeholders bring to our attention uncertainty in relation to specific potential ESG-related initiatives that may raise novel and significant concerns about competition law, we will consider whether and how we can either provide clarification, or take other regulatory actions.

We will continue to collaborate with the Competition and Markets Authority, which also has work underway in this area.

Tools

Rationale

We are committed to working with others to enhance industry capabilities and support firms' management of climate-related and wider sustainability risks, opportunities and impacts.

In a fast-moving and challenging space, progress towards positive ESG outcomes will depend on sharing experiences and providing mutual support. The actions under this theme are focused on using the FCA's relationships, convening powers and, as appropriate, regulatory tools to:

- help build industry capabilities, overcome challenges and drive good practice
- support and contribute to the advancement of knowledge in the ESG space
- ensure that our regulation of ESG benefits from the collective knowledge and experience of the FCA's extensive network

Reflecting this, we will work closely with domestic and international stakeholders, partnering as appropriate to pursue ambitious, but consistent and globally-aligned, standards on ESG issues.

Key actions

Influence and support internationally consistent outcomes in ESG, including through leadership of international workstreams and deep bilateral engagement with regulatory partners internationally

Target milestone: Ongoing

Climate change is a challenge that extends beyond national borders. So, we need a global response. International coordination on ESG matters is key to avoiding regulatory arbitrage and fragmentation, and finding agreed solutions to common ESG challenges.

We aim to position ourselves as a leader internationally and as a conduit, both through active engagement in international settings, and leading by example. We are leading members of ESG-focused working groups within global standard setters, such as IOSCO and the Financial Stability Board.

We will continue to leverage our participation in these – and other – international groups, using our voice and influence to promote globally-aligned solutions where possible.

Deliver an extensive and ambitious Innovation work programme to develop innovative solutions to support the market, consumers and regulators

This includes:

- following up on a TechSprint on ESG data and disclosure, held in October 2021
- in partnership with the City of London Corporation, inviting a second cohort of the Digital Sandbox [21] to test and develop products and services to address industry challenges in ESG data and disclosure
- launching the Green Fintech Challenge [22] 2.0
- scoping how data science and analytics can support the FCA's regulation of ESG

Target milestone: Launch Digital Sandbox and Green Fintech Challenge, Q1 2022

Technology can help to tackle some of the challenges faced by the financial sector in embedding ESG considerations across their activities. Through our Innovation Division, we are pursuing an extensive work programme, leveraging our suite of regulatory tools to support the development of new approaches and solutions in sustainability and climate change.

We hosted a successful Sustainability TechSprint in October 2021. The aim was to encourage innovative ideas on how we can harness technology to monitor ESG data and disclosures more effectively. Solutions addressed issues ranging from verification of companies' carbon offsetting programs, to helping develop sustainable investment labels using impact scores.

In addition, working with the City of London Corporation, we have received 40 applications to our Digital Sandbox cohort. This cohort of the Digital Sandbox will focus on creative solutions to industry challenges in ESG data and disclosure. We will support 12 successful applicants in this programme, which begins in January 2022.

We also invited innovative firms to apply to participate in our Green FinTech Challenge, an opportunity for innovative firms to launch climate- and ESG-focused products and services as part of our Regulatory Sandbox.

Linked to the 'Team' theme, we are also pursuing internal work to scope how data science and analytics can help embed ESG considerations across FCA functions.

Continue to work closely with industry, civil society and academics to promote collaboration, shared experience and mutual support

Including via:

- the FCA-PRA co-chaired Climate Financial Risk Forum
- deeper engagement on ESG with the FCA's statutory panels
- participation, as an observer, on ESG-related industry working groups
- an enhanced programme of market intelligence gathering, networking and horizon scanning

Target milestone: Ongoing

We will continue to work closely with stakeholders and will extend our arrangements for gathering market intelligence, horizon-scanning and collaboration with relevant industry groups, non-governmental organisations and academics. There is no need to reinvent the wheel.

The Climate Financial Risk Forum [23] (CFRF), which we co-chair with the PRA, was established in 2019. It brings together senior financial sector representatives to share their experiences in managing climate-related risks and opportunities, and help build capabilities and capacity across the industry.

In 2020, the CFRF published industry guidance materials, on disclosure, risk management, scenario analysis and innovation. And over the course of 2021, the CFRF built on this work, launching in October 2021 a further series of outputs, including guidance and tools to help accelerate firms' capability-building.

Maintain close collaboration with other UK regulators and Government departments, bilaterally and through relevant cross-regulator/cross-Whitehall working groups

Target milestone: Ongoing

The Government and financial regulators have common – and often overlapping – interests in ESG and sustainable finance. Close cooperation, collaboration and coordination is essential to reducing duplication, and avoiding potential conflict between policy interventions or confusion among stakeholders. Our aim is pursue consistent and coherent policymaking, and to ensure that interventions are led by the right authority, leveraging the right tools and powers. As a recent example, we collaborated with the Government and the Bank of England to help build G7 and G20 support for a pathway towards mandatory TCFD-aligned disclosures and the IFRS Foundation's initiative to establish the ISSB.

Alongside extensive bilateral engagement and collaboration, we are active participants in a range of cross-regulatory and cross-Whitehall fora, including groups on TCFD implementation, the Green Taxonomy, sustainability disclosures and investor stewardship. We take a coordinating role where appropriate and influence the direction of travel. We will continue to collaborate domestically in support of the Government's 2019 Green Finance Strategy and Roadmap to Sustainable Investing [29].

Transition

Rationale

We will deepen our work to support the role of finance in delivering a market-led transition to a more sustainable economy.

A market-led transition will require that listed companies and regulated firms have the right incentives, tools and organisational arrangements in place to set and pursue effective ESG strategies, including transition plans aligned with the Government's net zero targets.

As a regulator, we can facilitate this by:

1. clarifying our own expectations
2. promoting credible and effective ESG strategies and transition plans
3. addressing any regulatory barriers
4. encouraging good market discipline, including through effective investor stewardship

Key actions

Consider regulatory intervention to promote a market-led transition to a more sustainable future

Including by:

Promoting well-designed, well-governed, credible and effective net zero transition plans by listed companies and regulated firms.

Target milestones: Stakeholder engagement, H1 2022

The Government has set a clear direction of travel towards requiring the disclosure of net zero transition plans across the UK economy. We have a role to play in delivering on that ambition.

We will engage with stakeholders in the first half of 2022, with a view to promoting credible and effective transition plans that consider the Government's net zero commitments. We will consider matters such as the:

- governance of transition plans, including Board oversight, senior management responsibilities and objectives, and remuneration/incentive structures
- the content and disclosure of transition plans, building from TCFD guidance [21], which we have proposed to integrate into our TCFD-aligned disclosure rules

We will work with the Government and engage actively with the Climate Financial Risk Forum and other bodies, such as the Glasgow Financial Alliance for Net Zero, to promote consistency and comparability in the approach to net zero planning and associated disclosures. We will also consider mechanisms for market discipline and accountability that will support positive market-led outcomes; see also 'effective stewardship' below.

In parallel, we are considering our own commitments in this area and under 'Team' implementing arrangements across the organisation consistent with the expectation in the Government's remit letter that we 'have regard' to net zero in discharging our functions as a regulator.

Ensuring that our regulatory regime sets the right expectations and incentives across all E, S and G dimensions.

Target milestones: Consultation Paper on prudential ESG disclosures, Q3/Q4 2022; stakeholder engagement on other regulatory settings, ongoing through 2022

We will scope a programme of work to ensure that our regulatory framework adequately supports positive ESG outcomes. We will consider the incentives in place across the financial sector, and examine potential informational, institutional or regulatory barriers to a market-led transition to a more sustainable future – across all E, S and G dimensions. We plan to engage with stakeholders during 2022 and will communicate next steps in due course.

We will pay particular attention to work on diversity and inclusion. This work helps to ensure a fairer and more just society but also – crucially – creates the conditions for more creative, dynamic organisations that are better equipped to rise to environmental and societal challenges. We will undertake this work both independently and in partnership with official sector stakeholders.

Prudential policy is one area in which we are already planning further work on ESG. We will review our prudential regimes to ensure that regulated firms disclose information on how they assess and manage ESG risks, and relevant outcomes, where this would be beneficial to consumers and markets. We will commence with MiFID investment firms (as part of the Investment Firms Prudential Regime), with a view to consulting on prudential ESG disclosures in the second half of 2022.

Encourage effective investor stewardship of net zero and sustainability, including through active investor engagement, voting and responsiveness to clients' and consumers' preferences and objectives

Target milestone: Ongoing through 2022

As the role of finance is placed at the heart of public policy efforts to transition to a more sustainable future, active investor stewardship has been identified as one important way to pursue environmental and social goals.

Over the past 2 years, we have linked our work on stewardship (as set out in DP19/1 [22]and FS19/7 [8]) to related work on climate change and sustainable finance, and have enhanced requirements on firms to encourage effective and responsible stewardship (see PS19/13 [23]).

We will work closely with the FRC, other regulators and industry as firms continue to develop their stewardship strategies, building on the FRC's strengthened Stewardship Code 2020. We will monitor engagement between investors and issuers, and the exercise of investor stewardship, including voting at Annual General Meetings. We have said that if there is insufficient evidence of active stewardship to advance environmental and social goals, we will consider further regulatory action.

In relation to climate, active investor stewardship is an important tool to support an effective transition to a net zero economy. We consider that it is active engagement and exercise of voting rights that will drive change, rather than simply divesting from high-emitting companies – which just shifts ownership from those that 'care' to those that don't.

We will therefore consider how well our regime supports the important role stewardship can play in influencing companies' climate strategies, holding Boards and management to account and monitoring performance against their climate commitments. This links firmly to the work on net zero planning described earlier. We will consider what information investors need on companies' net zero plans to exercise effective stewardship.

In this regard, we have been considering how investor engagement and the exercise of existing shareholder rights, such as shareholder resolutions and voting against directors, can be used more effectively to encourage positive ESG outcomes. As part of this, we are engaged in the debate on a shareholder 'Say on Climate', which some consider a promising vehicle for shareholder scrutiny of companies' climate transition plans.

The Stewardship Regulators Group (cross-regulator and -Whitehall) surveyed a group of engaged stakeholders on this topic during the summer of 2021. Drawing on the responses received, and working closely with the FRC and relevant investor and issuer groups, we will consider next steps. This will include how we could potentially help to facilitate an industry-led approach in this area.

Also working with industry, another area of focus will be how well asset owners' and asset managers' stewardship activities are supported by the voting infrastructure, service providers and the wider stewardship ecosystem (including proxy advisors and investment consultants). We recognise that the landscape is shifting, with some asset managers giving clients more scope to participate in voting decisions. And we will consider the recommendations for enhancements to voting disclosure [24] recently published by the Taskforce on Pensions Schemes Voting Implementation.

Team

Rationale

Under this theme, we are developing strategies, organisational structures, resources and tools to support the integration of ESG considerations into our activities.

We need to adopt a holistic and cross-cutting approach to ESG issues if we are to deliver effectively on the outcomes we are targeting. This requires staff training and awareness, processes and systems, and high-quality data and intelligence across our regulatory functions. We need to be able to monitor and analyse developments effectively and leverage our regulatory tools with maximum effect.

Alongside this, we must hold ourselves to the same standards we expect of listed companies and regulated firms. We must ensure that our own ESG performance stands up to scrutiny, both in our role as a regulator and in how we operate as an organisation. Role modelling genuine change and high-quality transparency sets a clear bar for those on whom we place requirements; and shows that we are prepared to 'walk the walk'.

Key actions

Embed ESG considerations and the expectation that we 'have regard' to net zero across FCA functions

Target milestone: Ongoing work through 2022 to establish internal organisational structures and build capabilities

Develop and implement 'embedding' strategies and solutions across all relevant FCA functions and sectors.

We are working to integrate ESG considerations, with net zero considerations as an initial priority, across the FCA's functions. The policy work that we have described under the other themes will directly promote specified ESG outcomes. But we are taking steps to embed net zero and wider ESG considerations in all our policy work, as well as our market oversight, supervision, authorisations and enforcement activities. We are targeting a 'golden thread' approach, whereby these considerations are integrated seamlessly and comprehensively into our work across the organisation.

Reflecting the scale and urgency of the climate challenge, and the explicit inclusion in our remit of a requirement to 'have regard' to net zero, climate change will remain a priority. However, we are working to ensure that, as an organisation, we keep pace with the integration of wider environmental and social considerations in economic and financial decisions and financial instruments, products and services.

This will include, for example: setting ESG-related expectations at the Authorisations gateway; incorporating ESG-related questions and criteria in supervisory assessments and engagements; and building ESG-related elements into enforcement models.

Build resources and capabilities in the FCA's ESG Division and across the organisation, including staff training.

To support the internal integration of ESG considerations across our activities, we have established – and will continue to develop – a 'hub and spokes' model. Our ESG Division operates as a centre of expertise, intelligence, coordination and planning for the FCA on ESG matters.

But the outcomes we are targeting will be achieved only if our organisation has ESG at the heart of all of what it does. So, across each part of the FCA (the 'spokes'), we are developing a network of experts to help drive our agenda and to provide two-way interaction with the ESG Division. The ESG Division contains both subject matter experts and a team responsible for the ongoing embedding process to ensure that the 'local' experts across the organisation have the support they need.

The ESG Division will continually assess the potential for the FCA to fulfil its ESG aims with current resources. Where no such resource is available, we will seek to draw on external expertise from industry, civil society, the Government and elsewhere to help build our 'Team' capabilities as needed, taking regular account of how workstreams are developing.

We are also reviewing our internal governance structures.

Develop systems and processes to coordinate activities and evidence delivery.

In support of the above, the ESG Division coordinates the cross-FCA work programme. It tracks delivery of our commitments and expectations, reporting to the ESG Director and the ESG Committee.

Take steps to develop a data-led approach to regulation of ESG to increase the effectiveness of our regulatory oversight and enhance our capabilities.

Improved disclosure of ESG-related performance along the investment chain, combined with technological progress, will yield ever greater and richer streams of data. Data-led approaches can help inform and prioritise our supervisory engagement and target interventions more effectively. So, these developments offer us considerable opportunity to strengthen our regulatory practices, improve our evidence base, and increase the effectiveness of our oversight of markets, listed companies and regulated firms.

We will be following up on insights from our Innovation team's recent TechSprint which explored possible solutions in this area (see also 'Tools').

Communicate and role model, including by publishing our own report aligned with the TCFD's recommendations

Target milestone: Publish FCA TCFD Report, Q3 2022

We will publish our inaugural TCFD-aligned disclosure report in summer 2022 and annually thereafter (aligned with the reporting cycle for our Annual Report). This will role model transparency and good practice, aligning with what the Bank of England has done since 2020.

In developing our disclosures, we will target consistency with our expectations of listed issuers, asset managers, life insurers and FCA-regulated pension schemes under our existing and proposed TCFD-aligned rules.

Beyond climate change, we are committed to enhancing our performance across other ESG dimensions. Notably, as an organisation, we are committed to being as diverse and inclusive as possible, reflecting the communities in which we work and the consumers we protect.

Continue ‘systems thinking’ research on the ESG landscape

Target milestone: Ongoing through 2022

We discussed in our Climate Change Adaptation report [12], published in October 2021, our use of 'systems thinking'. Systems thinking allows us to look across the financial system and identify linkages between its different components.

Through this, we can examine how changes in one part of the system may have repercussions elsewhere – intended or otherwise – or, at least, to identify where we have knowledge/data gaps. This allows us to adopt a more informed and evidence–driven approach to complex policy interventions, such as those related to cross-cutting issues like ESG. This is vital if our interventions are to succeed in furthering the ESG outcomes we want to see.

As we noted in the Climate Change Adaptation report, our systems thinking work in the ESG space is continuing. We will use this ongoing work to help identify where we can best bring our regulatory tools to bear to achieve our aims.

Commitments and next steps

We have set out the work we are currently undertaking and intend to undertake as part of our ESG strategy.

We have explained the background and context of our work, the key elements of our refreshed strategy, and the actions we are taking. We have also summarised our key workstreams [25], the themes and Business Plan outcomes to which they relate, and the key milestones to the end of 2022.

These milestones will lay a firm foundation for future regulatory and market-led work in this area, supporting positive ESG outcomes into the future.

We will develop data-led strategies for delivery, and management information and key performance indicators to monitor and assess the success of our interventions. These performance indicators and information will also serve to hold us to account.

We are keen that industry participants should welcome this work. They should be able to take more informed business decisions, and know that they are operating in fair, effective market, that displays integrity and commands trust. We will gather feedback both through our supervisory work and liaison with stakeholders.

We will provide interim updates on our work as part of our Business Plan and Annual Report in 2022. We will produce a more detailed stock-take on progress in early 2023.

As we get going on this exciting programme, we welcome proactive communication and feedback from industry and other stakeholders. We encourage stakeholders to share their thoughts with us.

What we've delivered against 2019 priorities

Reflecting on our strategic objective to make relevant markets function well – and our operational objectives to protect and enhance market integrity, to protect consumers, and to promote effective competition in the interests of consumers – our Feedback Statement on Climate Change and Green Finance (FS19/6 [7]) set out an initial work programme to achieve the following outcomes:

1. Issuers provide markets with readily available, reliable and consistent information on their exposure to material climate change risks and opportunities
2. Consumers have access to green finance products and services, which meet their needs and preferences, and receive appropriate information and advice to support their investment decisions
3. Regulated financial services firms integrate consideration of material climate change risks and opportunities into their business, risk and investment decisions

A subsequent Feedback Statement on Building a Regulatory Framework for Effective Stewardship (FS19/7 [37]) set out related actions and next steps on investor stewardship. The aim of these was to support market-led efforts to dismantle informational, institutional and incentive barriers to effective stewardship and build on regulatory measures introduced earlier in 2019.

The tables below set out the key actions we committed to in these Feedback Statements and updates on the steps we have taken to deliver on our stated priorities.

Table 1: FS19/6: Climate change and green finance [42]

	Our key committed actions	Update on actions taken
1	Publish a Consultation Paper on new rules on Taskforce for Climate-related Financial Disclosures-aligned climate change disclosures	Introduced TCFD-aligned disclosure rules for premium listed issuers, with effect from 1 January 2021 (PS20/17 [16], published December 2020), further to consultation during 2020 (CP20/3 [22]) Contributed to Government's Interim Report and Roadmap [23] towards mandatory climate-related disclosures, published November 2020 Published consultation papers (CP21/17 [18] and CP21/18 [28]) in June 2021, proposing respectively to: • enhance client- and consumer-focussed climate-related disclosures by asset managers, life insurers, FCA-regulated pension provider • extend the application of the existing rule for premium-listed issuers to standard listed issuers of equity shares
2	Clarify that existing rules require disclosure of all financially material climate related risk	Issued Primary Market Technical Note 801.1 [23] on disclosures in relation to ESG matters, including climate change; published December 2020
3	Publish a Feedback Statement on Stewardship, which will signal our continued supervisory and policy interest in this topic and set out next steps	Feedback Statement (FS19/7 [43]) on building a regulatory framework for effective stewardship published October 2019 (see below for further details)

	Our key committed actions	Update on actions taken
4	Publish a Policy Statement on Independent Governance Committees' consideration of ESG factors	Introduced rules extending the remit of Independent Governance Committees (PS19/30 [22]; published December 2019)
5	Finalise measures to facilitate investment in patient capital	Introduced rules to give effect to Long Term Asset Fund [23]
6	Green FinTech Challenge	Green FinTech Challenge [32] 2.0 opened for applications in September 2021
7	Challenge firms where we see potential greenwashing, clarify our expectations and take appropriate action to prevent consumers being misled	Carried out further policy work during 2020, as well as consumer research on how consumers make investment choices [26] (see also 'Trust')
8	Carry out further policy analysis on greenwashing and take action (eg guidance) to address concerns as appropriate	Issued Dear Chair letter [27] to authorised fund managers setting out our expectations in the form of a set of guiding principles for the design, delivery and disclosure of ESG/sustainable investment funds
9	Engage and consider the proposals of the European Commission's Sustainable Finance Action Plan relevant to products and services, particularly around product disclosures	We are considering the European Commission's Sustainable Finance Disclosure Regulation and proposed Regulatory Technical Standards as we develop our policy design for the FCA's implementation actions under the Government's proposed SDR
10	Joint work with Government, other regulators and industry	Ongoing; including via the Climate Financial Risk Forum [33] and domestic and international regulatory working groups

Table 2: FS19/7: Building a regulatory framework for effective stewardship [51]

	Our key committed actions	Update on actions taken
11	In the first quarter of 2020, we will hold an industry workshop, jointly with other regulators, to discuss how asset owners set and communicate their stewardship objectives and how well these are adopted by asset managers and service providers	Workshop held, February 2020. The 'actions and next steps [21]' from the workshop called on industry to carry out further work in the areas of contractual and non-contractual arrangements between asset owners and asset managers – including in relation to voting transparency and practices, and asset manager reporting – and the role of investment consultants
12	We will engage with industry work led by the Investment Association that is considering how to promote along-term perspective in investment mandates and in asset owners' other arrangements with asset managers	We participated as observers in 2 industry working groups under the Treasury's Asset Management Taskforce that developed a report on 'Investing with Purpose [22]', published in November 2020. We are also participating as observers in a joint working group of the Investment Association and Pensions and Lifetime Savings Association which is considering possible measures to enhance asset manager-asset owner relationships in respect of stewardship

	Our key committed actions	Update on actions taken
13	The Treasury is considering the CMA's recommendation to bring investment consultants under FCA-regulation and will consult in due course. Pending the outcome of this consultation, we will consider stewardship as part of our work with the Treasury to design an appropriate regulatory regime	The Treasury continues to consider bringing investment consultants within the FCA's regulatory perimeter
14	We will continue to work with industry to identify areas of concern in relation to MAR and competition law and provide clarity so that issuers and investors can engage effectively within the bounds of the regulation	We have continued a dialogue with NGOs and other industry participants on this matter and committed to consider providing guidance if concrete issues are brought to our attention. We have engaged with the Competition and Markets Authority on competition law issues in this area, and under the strategy described in this document, we will begin stakeholder engagement (see 'Trust')
15	We will consult in early 2020 on proposals to introduce new 'comply or explain' climate change disclosure rules for certain listed issuers aligned with the TCFD's recommendations; we will also clarify existing disclosure obligations	See item 1, above
16	We will support the Law Commission's scoping study on intermediated securities	We contributed to the Law Commission's scoping paper [23], published in November 2020
17	We will consider outcomes as the new regulatory regime for proxy advisors, introduced in the context of SRD II, beds in	Ongoing; we will consider this alongside work to assess the recommendations of the Taskforce on Pension Schemes Voting Implementation [39], published in September 2021
18	We will consider the role played by specialist providers of ESG data services. As a first step, we are looking at the nature and quality of these services, how investors use them and how much they rely on them	We have considered the role ESG data and ratings providers and sought feedback on potential issues and harms in this area in CP21/18 [24], published in June 2021
19	We will consider further the role of firms' culture, governance and leadership in ensuring that firms take appropriate action to manage their risks of climate change and support the wider transition to net-zero emissions We want to ensure our regulatory framework promotes transparency and accountability around climate change issues; this work could consider wider senior management accountability for stewardship Our proposed new rules for IGCs will also be an important addition to the governance of stewardship in workplace personal pension schemes	New rules for IGCs published, December 2020 (see item 4, above). Further work on culture, governance and leadership on climate change and stewardship to be taken forward under the strategy described in this paper
20	We will continue to engage with the FRC as it implements its proposed activities and outcomes reporting under the UK Stewardship Code 2020	Dialogue with FRC ongoing, both bilaterally and as part of the wider Stewardship Regulators Group, formalised in early 2021

	Our key committed actions	Update on actions taken
21	We will continue to engage with firms on stewardship as part of our supervisory work	Supervisory dialogue ongoing
22	We will consider how best to enhance climate change disclosures by regulated firms, such as asset managers and life insurers; the approach we take will need to be coordinated with and informed by other ongoing initiatives	See item 1, above
23	We will challenge firms where we see evidence of potential greenwashing, clarify our expectations, carry out further policy analysis and take further actions as appropriate	See item 7, above

Source URL: *https://www.fca.org.uk/publications/corporate-documents/strategy-positive-change-our-esg-priorities*

Links

- [1] https://www.fca.org.uk/publications/feedback-statements/fs19-6-climate-change-and-green-finance
- [2] https://www.fca.org.uk/publications/business-plans/2021-22
- [3] http://www.un-documents.net/our-common-future.pdf
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