ESG ACCORD

FCA DP21/4. Submission from ESG Accord – January 2022

Q1: What are your views on the tiered approach set out in Figure 2? We welcome views on any concerns and/or practical challenges.

Product Labels, if restricted to fund/account types rather than financial product (ISA/SIPP etc) will help consumers/ advisers make an initial assessment of the nature of an investment fund and whether it meets the investor's objectives.

We agree with a tiered disclosure approach; easy to understand level aimed at consumers and financial advisers plus a more detailed level for institutional investors and those requiring more technical information.

The labels need to be colour-coded and easy to identify at a glance. Further information specific to the individual fund can be provided via a click-through process. This can work form a mobile phone, tablet or PC ensuring easy access when needed.

As KIIDs must be provided to investors, it makes sense for the Label information to be on the first page and near the top of the KIID. The same label can be displayed on the provider's web site against each fund and could also be used by online service providers such as platforms to easily show the fund type. Click on the label and the investor/adviser is take through to more detailed disclosure information.

2: Which firms and products should be in scope of requirements for labels and disclosures? We particularly welcome views on whether labels would be more appropriate for certain types of product than for others, please provide examples.

Labels should be applied to all investment/savings products. This would ensure uniform approach across products (funds) and ensure that end investors make information decisions. If labels only applied to some products and not others, it would imply that ESG/Sustainability issues are not relevant to the particular product. This is far from the case for any investment fund/account, including cash-based options. Every investment has an impact. To use the Food Label example, if the labels only applied to certain foods, those foods without labels could contain high levels of salt/fat but the consumer would not know or might assume that somehow the food was 'perfectly OK, because if it did have problem contents then it would have a label – wouldn't it?'.

Labels should apply to all stand-alone investment funds, DFM services marketing 'packaged' services such as MPS, Pension and Life investment funds, savings products from financial institutions (to ensure full transparency and to avoid product bias).

Disclosures: TCFD and Taxonomy alignment to follow a stepped in approach such as with TCFD regime scope and will evolve as the taxonomy is developed.

Q3: Which aspects of these initiatives, or any others, would be particularly useful to consider (for example in defining terms such as responsible, sustainable and impact) and how best should we engage with them?

The wording used for Labels will need to acknowledge what is happening internationally. Whilst the UK does not need to slavishly follow other taxonomy models, it would be confusing to investors (and problematic for product providers) is there were significant divergence in UK taxonomy compared to recognised international standards. Definitions and glossaries developed for reporting include PRI, TCFD, TNFD, GRI, Global Sustainable Investment Alliance, CFA, SASB, International Finance Corporation, SFDR and the Taxonomy Regs and ISSB.

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Q4: Do you agree with the labelling and classification system set out in Figure 3, including the design principles we have considered and mapping to SFDR? We welcome views on further considerations and/or challenges.

We strongly oppose the proposed label regime as outlined in Figure 3. The descriptions are not only contrary to internationally accepted definitions, but also completely ignore products that are already in place and which have used alternative definitions for decades. Responsible Investment, as defined in Figure 3, ignores the large number of Responsible Investment funds already available. These existing RI funds operate in broadly similar ways, and are understood by the thousands of investors using them. For a label regime to come in and tell investors that Responsible Investment means something which is an almost polar opposite to the funds they hold will be confusing at best and at worst will undermine confidence in financial products and the incoming label regime.

The labels should be based on investment strategy and not be economic activity based. The investment strategy approach is far easier for consumers to understand, compared to the knowledge required to understand specific economic activities.

The label strategy should follow an objectives, process and stewardship activities basis (such as suggested by the CFA). Alignment to Taxonomy or measurement of allocated capital is above the implementation label strategy. This helps to prevent subjective good or bad judgements.

Sustainable. Potentially the same issue as label highlighted for the proposed Responsible label. Many funds currently named as sustainable operate in different ways without necessarily being able to be ‘carved up’ using the labels wording in Figure 3.

*EU - Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices. There is a potential mapping issue as ISSB does not detail double materiality. We strongly believe that the UK Taxonomy should contain this concept. ISSB’s work is based on existing IFRS concept of materiality and will not adopt the EU's double materiality concept. This means corporate reporting standards are concerned with a company's own financial health and risks to it, not with any impact the company is having on the planet. It is understood the ISSB's standards will not preclude double materiality being adopted elsewhere.

The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. For the time being, it does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Transitioning. Our view is that transitioning investment strategies (buying Shell/Exxon and working with them to be ‘better’) should be an integrated as part of a broad engagement strategy. Many customers, we believe, would seek out funds that, subject to minimum standards, had Engagement built-in for transitioning stocks and where fund managers used this engagement to assist with corporate transitioning.

We believe that transitioning should be a compulsory disclosure issue, for all funds, rather than a separate investment strategy for some funds. If transitioning were a disclosure requirement, all funds would be able to identify (subject to parameters set within the disclosure process) companies in their portfolios that were either in the process of transitioning or needed to start transitioning. Fund Managers would then be free to outline their Engagement strategy to demonstrate how they proposed to deal with transitioning business. FMs would be free to take no engagement action at all. Some investors would want to see a formal engagement process in place, others wouldn’t be interested at all.

Transitioning is, we believe, the main area one that could cause the most reputational damage to sustainable investment. Issue with ‘transitioning’ term - Q13 in IOSCO Annex. Some respondents noted that the existing taxonomies are focused on economic activities rather than investment approaches the latter of which would be more helpful to investors.

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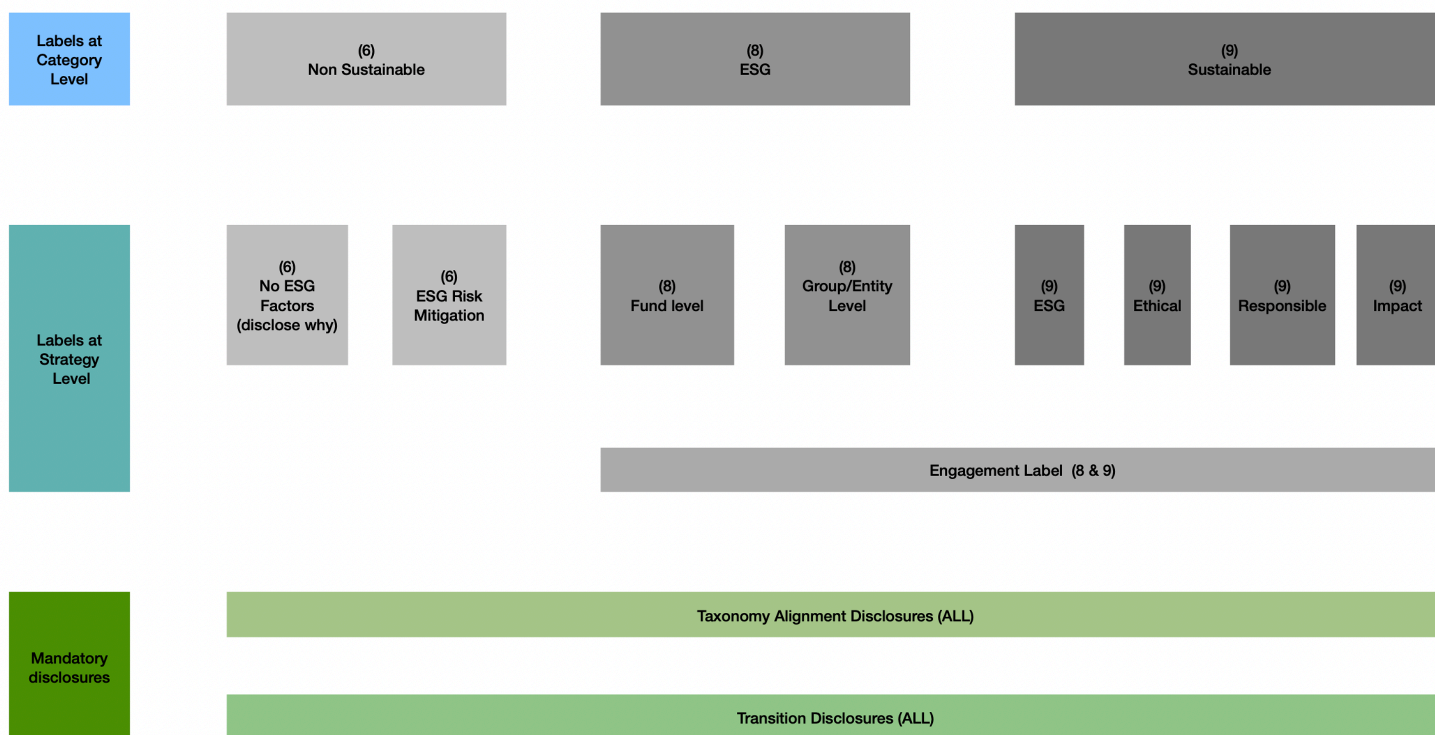
The UK label for 'not promoted as sustainable' must include ESG risk integration disclosures even where not considered relevant to a fund's strategy. Without doing so the category will dwindle and be left as a category for funds with short time horizons and or highly specific outcomes.

Our belief is that any label system should allow managers to adopt a dual layer system, providing investors with an easy to see summary of each fund's suitability to their needs/requirements. Investors rarely have a narrowly defined investment requirements and retail investor views on sustainability, responsible investment, ethical, impact etc are even more varied.

We believe that each of the labels should have strict minimum transparency and disclosure standards. Fund Management groups, DFMs etc could then blend any of the strategy labels to create a fund with their USP built in.

We offer the following diagram, demonstrating a label regime which reflects the wide-ranging UK market and allows for fluidity, longevity and evolution. We believe there should be 2 tiers of labels (colour-coded for simplicity) PLUS a level of minimum disclosures.



Category Level – these three map across to the EU's Articles 6,8 and 9. This is a rough guide at this stage, but it would allow investors to quickly choose their preferred category of fund. We are sure that the UK can avoid some of the problems the EU has built for itself in the three Article descriptions and give investors a simple description for each category. In simple terms, this might be:

Non-Sustainable – the fund's investment strategy is not designed to incorporate ESG factors into the investment process.

ESG – the fund applies ESG to the investment process. Each FM has the freedom to apply ESG in the way they fee fit and which follows the broad house investment policy.

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Sustainable – a broad category allowing FMs to build a fund offering which can meet the diverse requirements of different investors. This Label category will indicate to investors that specific investment processes are in place to invest in/avoid/support/identify specific areas.

With basic consumer facing information describing the Categories of funds, retail investors will have a 'feel' for the type of approach they want to apply to some/all of their investments. How the FM actually operates an investment process within a category is their own USP and is identified by the Strategy Labels they apply.

Strategy Level – using some of the descriptors from Figure 3 and using some of the existing fund strategy descriptions already in place, retail investors can look for funds that have strategies aligned with their views. FMs are free to build a strategy which includes multiple strategy labels as this will reflect the multiple needs of retail investors.

Engagement – this single label can be applied under either of the ESG or Sustainable categories. FMs do not have to adopt an Engagement strategy – that is a free choice for individual fund houses. Some investors will look for the engagement label, others will not be interested.

Minimum Disclosure areas – we high included Transitioning here as a disclosure requirement, not as a specific label. To meet the Government's Sustainable RoadMap objectives, transitioning works better as a disclosure requirement. If it were an optional label, many funds would choose not to adopt this as their main designatory label, even if they had an engagement policy on transition stocks. It also means that funds going down the 'Article 6' route wouldn't have to do anything at all requiring transitioning. Whether a fund is active on transitioning or not, by including it as a disclosure requirement investors will see very clearly where each fund stands on the issue.

Practical Label use example:

1. A retail investors is a vegan, so would be keen to use a fund which had the Sustainable category label and, as a minimum, the ethical label. Once the investors had narrowed down all of the Sustainable/Ethical labelled funds, they would then need to check the ethical policy of each of the funds to fund the ones apply ethical screening to meet their needs.

The same vegan investor, once they have found the ethical funds that meet their requirements, could then look for funds with any of the other labels to refine their investment strategy. They might be happy with just a negative screening approach, or might look for the Engagement label, the ESG label and the Impact Label as these would cover other areas beyond those screened out by their ethical views.

2. A retail investor wants to ensure that some action is being taken on ESG issues but they do not want to be actively involved in specifying particular strategies. This investor would choose the ESG Category and then look for the ESG label at fund level.

Q5: What are your views on 'entry-level 'criteria, set at the relevant entity level, before products can be considered 'Responsible 'or 'Sustainable'? We welcome views on what the potential criteria could be and whether a higher entity-level standard should be applied for 'Sustainable ' products. We also welcome feedback on potential challenges with this approach.

Entry level for strategy approach labels could follow along the lines of the CFA, creating trust in strategy claims.

Yes, to higher level of disclosures. Including, as with EU:

Article 6 equivalent non-sustainable - disclosures would show ESG & S consideration where deemed relevant and reasoning, demonstrate governance
Article 8 equivalent disclosures would show financial materiality, demonstrate good governance
Article 9 equivalent would show more sustainable attributes & objectives, activities and impact and non-financial materiality, demonstrate good governance and min Principle Adverse Sustainability Impacts (impacts are defined in EU

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as “negative, material, or likely to be material effects on sustainability factors that are caused, compounded by, or directly linked to investment decisions and advice performed by the legal entity.”).

As with the EU Taxonomy Regulation, providers should disclose how and to what extent the underlying investments support economic activities that qualify as environmentally sustainable. Also, to define the information and KPIs that investors and companies must disclose to show the proportions of their investments or activities that are Taxonomy aligned. KPIs for non-financial undertakings could include turnover, capital expenditures and operational expenditures. For financial undertakings it could be a similar calc to the EU’s Green Asset Ratio and Green Investment Ratio.

Criteria - coherent with SFDR (6, 8 and 9). Disclosure requirements for ALL
Entity level (asset managers) - disclose on website, show decision making process, due diligence policies, risks, impacts - all disclosed if considered as well as if not considered relevant.
Entity level (financial advisers) - website, how risks and impacts are considered within advice as well as if not considered relevant.

Potential issues
UK taxonomy is unknown. Divergence issues unknown.
Taxonomy and evolution of metrics makes for a moving target with potential delays on timeline, scope of implementation. More activities may be covered, additional criteria will be developed.
There will be issues for inclusion or exclusion of certain economic activities (see EU and natural gas and nuclear power generation).
This all creates uncertainty to financial markets, plus the complexity for gathering data and financial product evolution/development of new products/funds.
As the taxonomy develops some financial asset classes may be more affected than others; some may be able to develop and produce disclosures more easily.

Q6: What do you consider to be the appropriate balance between principles and prescription in defining the criteria for sustainable product classification? We welcome examples of quantifiable, measurable thresholds and criteria.

Entry level for strategy approach labels could follow along the lines of the CFA, creating trust in strategy claims.

Yes, to higher level of disclosures. Including, as with EU:
Article 6 equivalent non-sustainable - disclosures would show ESG & S consideration where deemed relevant and reasoning, demonstrate governance
Article 8 equivalent disclosures would show financial materiality, demonstrate good governance
Article 9 equivalent would show more sustainable attributes & objectives, activities and impact and non-financial materiality, demonstrate good governance and min Principle Adverse Sustainability Impacts (impacts are defined in EU as “negative, material, or likely to be material effects on sustainability factors that are caused, compounded by, or directly linked to investment decisions and advice performed by the legal entity.”).

As with the EU Taxonomy Regulation, providers should disclose how and to what extent the underlying investments support economic activities that qualify as environmentally sustainable. Also, to define the information and KPIs that investors and companies must disclose to show the proportions of their investments or activities that are Taxonomy aligned. KPIs for non-financial undertakings could include turnover, capital expenditures and operational expenditures. For financial undertakings it could be a similar calc to the EU’s Green Asset Ratio and Green Investment Ratio.

It should not be possible for a fund or company to claim or market themselves as transition or taxonomy aligned where they are meeting a portfolio warming metric or are aligned with remaining carbon budget but they are doing significant harm to other elements of the planet or society. The UK should implement granular DNSH/Double Materiality benchmarks.

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Q7: Do you agree with these high-level features of impact investing? If not, why not? Please explain, with reference to the following characteristics:

- Intentionality; needs to be demonstrable from outset. Managers cannot be left to 'post justify' their investments to align with Impact strategy. Investors need to know that managers have Impact built in to the investment process and not justified afterwards if challenged.
- return expectations; clear definition that the investments are made with the intention of dual capacity to generate positive, measurable social and environmental impact alongside a quantifiable financial return. The target financial returns that range from below market (concessionary) to risk adjusted market rate.
- impact measurement; needs to be demonstrable from outset. If impact can't be measured, managers should not be allowed to claim they are having impact. There is, or course, some flexibility in this around some environmental and social issues. The key here is full transparency.
- Additionality; definition by the Impact Management Project "the extent to which desirable outcomes would have occurred without public interventions." The OECD defines 3 types of additionality (Financial, Value and Development)
- Other characteristics that an impact product should have; Impact should be a category in its own right. This allows for this evolving category, ref Freshfields Bruckhaus Deringer (Freshfields) commissioned by the PRI, UNEP FI - "A Legal Framework for Impact." https://www.unepfi.org/legalframework-for-impact/ Two levels of impact. Investors engaging in IFSI are therefore concerned with two sorts of related sustainability impact. First, the impact on social and environmental sustainability of business enterprises, and the impact of policymakers and other third parties on the operating environment for enterprises and investors. Second, the influence, or impact, that the investors themselves can have on the sustainability impact of enterprises, policymakers and other third parties.

Q8: What are your views on our treatment of transitioning assets for:

a: the inclusion of a sub-category of 'Transitioning 'funds under the 'Sustainable 'label?

Our view is that transitioning investment strategies (buying Shell/Exxon and working with them to be 'better') should be an integrated as part of a broad engagement strategy. Many customers, we believe, would seek out funds that, subject to minimum standards, had Engagement built-in for transitioning stocks and where fund managers used this engagement to assist with corporate transitioning.

We believe that transitioning should be a compulsory disclosure issue, for all funds, rather than a separate investment strategy for some funds. If transitioning were a disclosure requirement, all funds would be able to identify (subject to parameters set within the disclosure process) companies in their portfolios that were either in the process of transitioning or needed to start transitioning. Fund Managers would then be free to outline their Engagement strategy to demonstrate how they proposed to deal with transitioning business. FMs would be free to take no engagement action at all.
Some investors would want to see a formal engagement process in place, others wouldn't be interested at all.

Issue with 'transitioning' term: please see Q13 in IOSCO Annex. Some respondents noted that the existing taxonomies are focused on economic activities rather than investment approaches the latter of which would be more helpful to investors.

WORD of Warning – extreme caution must be applied with Transitioning. The use of a specific transitioning label may have unintended and very negative consequences for investors. To a lesser extent the same will apply to transiting disclosures.

Transition Label – for the label to be effective, it must have very clear and specific parameters applied to it so FMs understand what is required of them. Any threshold/minimum limits etc are likely to cause investment return problems for investors. For a fund to be separately designated as a Transition Label fund, transitioning needs to be built into the investment and stock picking process. If a potential stock/bond isn't in an area that would be covered by any definition of transitioning, it couldn't be included in the portfolio. This would exclude potentially profitable investments for clients, thus negatively skewing the investment potential and changing the risk profile of a fund.

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To reduce this impact a Transition Label might specify that to qualify for the Label a fund must hold 50% in transiting stocks. Again, a problem arises here. If the FM builds a portfolio which must meet the 50% requirements, how many of those transitioning 50% holdings are there are genuine good investments or only as potentially 'fillers to make up the numbers'? Investors in these funds want to know that their investment returns are not being negatively impacted solely because FMs are massaging stock selections to meet Label parameters.

One solution might be to have a very visible risk warning declaring that investment returns may be negatively impacted by FMs meting minimum threshold requirements to maintain use of the Transition Label. This is certainly going to impact on the level of money flowing into these funds.

Transition disclosure – if every fund needs to analyse and assess the underlying transition disclosure information, then there will be no minimum requirements to meet in order the maintain acceptance for a Transition Label. Logically, this means that FMs can adopt their preferred investment strategy, to meet the needs of investors, and treat transitioning data as an 'after the event' reporting requirement.

In isolation the 'after the event' reporting shouldn't distort investment decisions, However, if the marketing department of a product provider see their funds as being the 'worst' compared to peers, there may be internal pressure to improve a fund's rating. To do this the fund manager would need to incorporate more transition stocks (already discounted as a suitable investment) and this is going to change the nature of the fund.

Whistle blowing – in the scenarios outlined about it should be incumbent on the fund manager to resist all attempts to influence the construction of the portfolio. If they are unable to do so, the FCA need to make it clear that such situations need to be disclosed to the Regulator via existing whistle-blowing procedures. This needs to be overtly stressed to ensure that everyone is aware of the issue, that it is being monitored and that fund mangers are required to see any pressure to change portfolios as an area that requires direct engagement with the Regulator.

b: possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?

This question depends on what the UK Taxonomy looks like, which does not exist yet. Broadly speaking we feel the UK should follow a framework in line with EU Taxonomy Regulation, investors could disclose how and to what extent the underlying investments support economic activities that qualify as environmentally sustainable. Also, to define the information and KPIs that investors and companies must disclose to show the proportions of their investments or activities that are Taxonomy aligned. KPIs for non-financial undertakings could include turnover, capital expenditures and operational expenditures. For financial undertakings it could be a similar calc to the EUs Green Asset Ratio and Green Investment Ratio.

It should not be possible for a fund or company to claim or market themselves as transition or taxonomy aligned where they are meeting a portfolio warming metric or are aligned with remaining carbon budget but they are doing significant harm to other elements of the planet or society. The UK should implement granular DNSH/Double Materiality benchmarks.

Q9: What are your views on potential criteria for 'Responsible 'investment products?

Following our suggested strategy approach (see explanation of graphic in Q4), criteria should be based on implementation, i.e., how the fund does what it does (Strategy).

As a strategy, Responsible funds should include ESG metrics plus exclusions and introduce the opportunity to invest with positive sustainable investment strategy or themes. These funds might direct their investment focus to water, health, clean energy companies (not an exhaustive list) or be based on a circular economy model which means designing out waste and pollution, keeping products and materials in use, and regenerating natural systems. Because of the more focused investment strategy on some sustainable funds, the level of investment risk may be slightly higher than a conventional investment fund which would have a broad investment strategy.

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This would fall under Article 9 equivalent heading (see our chart in Q4)

Q10: Do you agree that there are types of products for which sustainability factors, objectives and characteristics may not be relevant or considered? If not, why not? How would you describe or label such products?

Yes agree. For investment-based products/funds: Reasons why ESG & Sustainability risks may not be considered relevant where the fund has a highly specific purpose, or the fund has a short/limited shelf life.

Article 6 equivalents. The label description should be similar to DP21/4 suggestion "Not promoted as sustainable" because disclosures should show ESG & S consideration where deemed relevant and reasoning and demonstrate governance.

This covers funds that don't integrate any sort of sustainability into their process. Where the fund does not consider ESG & Sustainability risks in investment decisions, it should clearly state the reasons why and then consider when and if the fund intends to include this information within the investment decisions.

Many funds have diverse investment strategies so it is likely that ESG & Sustainability risks will continue to be relevant to a fund's investment process.

Where the fund deems ESG & Sustainability risks to be relevant / financially material, the fund is also required to state that it has integrated sustainability risks into investment decisions. It will need to describe how this is achieved and have policy in place underpinning any disclosures.

It should not be necessary for a fund to be re-classified as an Environmental, Social or Governance ('ESG') Fund or a 'Green Fund 'for it to contain ESG or Sustainability factors.

Q11: How do you consider products tracking Climate Transition and Paris-aligned benchmarks should be classified?

This depends on the criteria and rules of the benchmark/index gets created and the UK Taxonomy (and if the UK implements DNSH/Double Materiality). Potentially products tracking these benchmarks could be equivalent to Article 6, 8 or 9.

Q12: What do you consider the role of derivatives, short- selling and securities lending to be in sustainable investing? Please explain your views.

There is the potential to run successful activist campaigns that could push deals or large-scale restructurings of companies invested in. It is important that it should be a requirement to explain how derivatives attain sustainability objectives (depending again on UK taxonomy).

UK should be coherent with the EU SFDR; the RTS recognises derivatives. Financial market participants should be transparent as to the share of their investments that are held directly, and the share held indirectly.

They should explain how the use of derivatives is compatible with the environmental or social characteristics that the financial product promotes or with the objective of sustainable investment, how it attains the characteristics and objectives. DNSH/Double Materiality benchmarks should apply.

The ESA (European Supervisory Authorities): "acknowledge the feedback and have decided that the disclosure of derivatives should be limited to where they are used for speculative purposes to achieve the sustainability characteristic or objective of the financial product."

https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under _sfdr.pdf

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Q13: What are your views on streamlining disclosure requirements under TCFD and SDR, and are there any jurisdictional or other limitations we should consider?

Double materiality limitation issue with ISSB. As an international standard the UK suggests it will adopt, there is a serious issue that the ISSB doesn't include double materiality. ISSB's work is based on existing IFRS concept of materiality and may not adopt the EU's double materiality concept. This means corporate reporting standards are concerned with a company's own financial health and risks to it, not with the, or any, impact the company is having on the planet. It is understood the ISSB's standards will not preclude double materiality being adopted elsewhere.

To potentially restrict double materiality to impact label disclosures is a big mistake because if and when companies depend on ecosystem goods or services that come from natural capital assets (air and water filtration, food and water production, and climate regulation) investors would benefit from disclosures on the management of these dependencies to make informed decisions.

Q14: What are your views on consumer-facing disclosures, including the content and any considerations on location, format (eg an 'ESG factsheet') and scope?

See Q1

- Product labels - strategy based for implementation (investment approach not economic activity based, investment approach being more useful to investor), strategies falling under SFDR fund aligned (6,8&9) headings
- Disclosure layer 1 - click through via KIID, contains TCFD and taxonomy alignment basics (advancing metrics)
- Disclosure layer 2 - accessible via KIID, click through for deeper detail.

ESG info is likely to be financially material, ESG is financial info. Labels should not show ESG as separated elements - integrated into the documents.

With financial materiality and investor values measuring in mind, we also suggest the addition of "objectives" to the terminology used in DP21/4 1.11, "Building on existing rules, a key aim will be to confirm that they should take sustainability matters into account in their investment advice and understand investors' preferences **and objectives** on sustainability to ensure their advice is suitable".

Q15: What are your views on product-level disclosures, including structure, content, alignment with SFDR and degree of prescription?

We support the proposed DP21/4 disclosure layers. Alongside this (and in line with IOSCO recommendation 3) we believe the FCA should;

1. As follow up to the MiFID II review Feb 21 and in response to incoming Labels for All funds/ESG/S: issue guidance to Manufacturers to raise their participation with Distributors on target markets (and negative target markets), ensuring Distributors align Labels to client preferences. To do this, Distributors will need to ask ESG/Sustainable questions with all clients.
2. Issue guidance to Manufacturers that where fund objectives, processes and strategy contain ESG/Sustainability for the target market to reflect this inclusion (ensure flow of information)
3. In response to incoming Labels for All funds/ESG/Sustainable (and as a reminder to Distributors that they are an essential Market Participants): issue guidance to Distributors to raise their participation on target markets (and negative target markets) by including granular KYC for Sustainability Preferences to match to fund Labels
4. Issue guidance to Distributors to take target markets into consideration and feedback with client information via granular due diligence (ensure flow of information)
5. Guidance to all distributors on implementing procedures to ensure good client outcomes ahead of introduction of fund labels. New clients and annual reviews being the ideal opportunity to introduce the labelling system to clients (direct or advised)
6. Addition of client ESG/Sustainable preferences **and objectives:** COBS 9A.2 Assessing suitability: the obligations - (PROD 3.3.18 makes ref to COBS 9A.2)

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Q16: What are your views on building on TCFD entity-level disclosures, including any practical challenges you may face in broadening to sustainability-related disclosures?

Fully support TCFD disclosures. Also support incoming TNFD disclosures.

There are potential challenges where additional criteria will be developed and data will be difficult to obtain. This may create uncertainty to pricing in early stages and to financial product evolution (and development of new products/ funds).

Some financial asset classes / industries may be more affected, some (larger institutions) may be able to develop and produce disclosures more easily creating an advantage to them to be more easily invested in and this may stifle competition in the early stages of the disclosures.

There is an issue with using TCFD. The ISSB builds on the foundation of the TCFD framework alignment already being implemented in the UK. However, the materiality definition adopted by the TCFD is "insufficient in serving the battle against climate change" (Eric Usher, the Head of UN Environment Programme Finance Initiative) and ultimately sustainable development because the ISSB's work is based on existing IFRS concept of materiality and will not adopt the EU's double materiality concept. This means corporate reporting standards are concerned with a company's own financial health and risks to it, not with the impact the company is having on the planet. It is understood the ISSB's standards will not preclude double materiality being adopted elsewhere.

It should not be possible for a fund or company to claim transition alignment where they are meeting a portfolio warming metric or are aligned with remaining carbon budget but they are doing significant harm to other elements of the planet or society. The UK should implement granular DNSH/Double Materiality benchmarks.

Q17: How can we best ensure alignment with requirements in the EU and other jurisdictions, as well as with the forthcoming ISSB standard? Please explain any practical or other considerations.

The UK DP21/4 and Roadmap aims to align SDR with ISSB - the ISSB has a different reporting system which is structured in a way that risks not including financial immaterial info. Answered more fully in Q13

Q18: What are your views on the roles of other market participants in communicating sustainability-related information along the investment chain?

Where communication and methodology is transparent and trustworthy this is a good thing. Raising current participation and due diligence is key. The role of the regulator via MiFID II PROD is to better protect investors by regulating each stage of a product/fund life cycle. Communication & dialogue creates feedback to genuinely design and then match products to retain investor needs. Please see answers to Q15.

Q19: Do you consider that there is a role for third-party verification of the proposed approach to disclosures, product classification and labelling and organisational arrangements of product providers? Do you consider that the role may be clearer for certain types of products than others?

Yes, where the verification is independent and created for the purpose. However, whilst minimum disclosure requirements can be prescribed, there should be no single 'right way' of describing one approach or another. No single entity has the right to dictate what ESG means, what ethical means etc. A single body dictating standards, approach would be against the FCA's remit of promoting market competition.

Q20: What approaches would you consider to be most effective in measuring the impact of our measures, including both regulatory and market-led approaches, and should disclosures be provided in a machine- readable format to better enable data collection and analysis?

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Measuring and requiring feedback on participation by manufacturers and distributors on PROD targets markets will enable feedback on products ending up in the right hands. Also, inflows to different labels/fund classifications can be monitored via regulatory submissions.

The FCA should be able to compare the 'shape of inflows to the different Label categories from retail investors via the direct channel and the advised channel. Logically, there should be a similar distribution shape from both channels, but any discrepancies could be examined. For example, if direct retail investors were weighted towards 'Sustainable' products (as per our Label category in Q4) but advised retail investors were predominantly in the ESG category, once explanation might be that financial advisers were limiting the choice of funds to their clients to meet their own objectives (easy admin, reduced due diligence etc).

The measurement would be based on investor head count rather than assets invested; this is because investments made via advised channels have historically been of higher value. In this area, it isn't the amount of money invested but the distribution of individuals choice across the different categories. Hence, a head count measurement will indicate which categories individual investors are choosing/advised to choose.

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