

FCA publishes strategy paper on its ESG priorities and timetable

Overview

ESG remains high on the regulatory agenda and this is unlikely to change, at least in the near to middle term future long-term.

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.

With this in mind, on 3 November 2021, the FCA published a webpage, "[A strategy for positive change: our ESG priorities](#)".

This both (a) provides a high-level overview of its ESG strategy and (b) sets out the outcomes it hopes to achieve and the strategic themes and key actions it expects to take to deliver them.

Although the FCA notes that some results may take 'multiple years' to achieve, in [a separate webpage](#) published at the same time, it identifies a number of interim milestones in the coming period.

Next steps?

The FCA will provide interim updates in 2022 as part of its Business Plan and Annual Report and, having gathered feedback through its supervisory work and from interaction with stakeholders, it intends to publish "a more detailed stock-take on progress" in 2023.

The FCA's ESG strategy

'Transparency' and 'trust' have been key themes of the FCA's work on climate change and ESG, reflecting its initial priorities as set out in Feedback Statement 19/6, "[Climate Change and Green Finance: summary of responses and next steps](#)" (October 2019).

While these remain core areas of focus, the FCA notes that its work is moving into a new phase, looking beyond climate, and aiming to ensure that existing arrangements are scalable to deliver a consistent, coherent approach to ESG issues more broadly.

In consequence, the FCA has developed, and now published, a refreshed ESG strategy, which sets out how the FCA plans to deliver on the target ESG-related outcomes included in its 2021/22 Business Plan.

It accepts that its strategy will continue to develop as the landscape changes, with further detail likely to be added in certain areas as the regulator's thinking evolves – most notably, its long-term objectives and priorities under each of the E, S and G headings.

All the 'T's' - the FCA's Five Core Themes

The core themes around which the FCA's strategy is based are:

- **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”)

For each, the FCA's strategy document sets out (i) the rationale underlying the theme and (ii) key actions it plans to take and target dates for these. Looking at each in turn:

1. Transparency

(i) Rationale

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

The role of corporate disclosures in informing market pricing and supporting business, risk and capital allocation decisions is reflected in the UK's TCFD implementation strategy and its wider ambitions for sustainability disclosures.

In October 2021, the Government set out plans for economy-wide Sustainability Disclosure Requirements (SDR) in its [Roadmap to Sustainable Investing](#) (see our summary [here](#)).

The SDR aims to ensure that making enhanced disclosures to clients and consumers will help them make more informed financial decisions – which, in turn enhances competition between providers and protects consumers from unsuitable financial products.

In the view of the FCA, “[t]he needs of investors and other providers of capital are still not being adequately met”.

(ii) Key actions and timing

(a) Enhance climate-related financial disclosures

The FCA intends to

- implement the TCFD’s recommendations in its Handbook, for listed companies and FCA-regulated asset managers and asset owners.
- publish policy statements to its consultations on proposals to:
 - extend the application of the existing disclosure rule to issuers of standard listed equity shares (CP21/18)
 - introduce new client-facing disclosure requirements and guidance for asset managers, life insurers and FCA-regulated pension providers (CP21/17)

Timing: Policy Statement, end-2021

TCFD-aligned rules phased in from January 2022

- consult on the introduction of ESG disclosures as part of the Investment Firms Prudential Regime for MiFID firms

Timing: consultation in 2022

First disclosures under the FCA’s new rules for premium listed companies will be made in early 2022. For these, the FCA will:

- assess how well listed companies have complied with the new requirements
- identify areas of concern and clarify good practice
- release more information for listed companies and their advisers on its approach to monitoring compliance with the new listing rules via its Primary Market Bulletin

Timing: article in Primary Market Bulletin in November 2021

(b) Promote global consistency and comparability in corporate reporting on sustainability matters

The FCA intends to

- working actively with the International Organisation of Securities Commissions (IOSCO), the Financial Stability Board (FSB) and the International Financial Reporting Standards (IFRS) Foundation
- encourage rapid progress beyond climate-related disclosures towards wider environmental and social disclosures
- work with domestic and international partners to promote effective audit and assurance of sustainability-related disclosures,
- develop UK plans for implementing forthcoming global standards

Timing: through 2022/23 as IOSCO/IFRS initiatives proceed

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

CP21/24, "[Diversity and inclusion on company boards and executive committees](#)" (July 2021) contained proposals to improve transparency on the diversity of listed companies' boards and executive management teams.

DP21/2, "[Diversity and inclusion in the financial sector – working together to drive change](#)", published jointly with the Bank of England in looked at how the pace of meaningful change on diversity and inclusion can be accelerated.

Over time, the FCA expects 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".

Timing: Q1 2022 - Policy Statement to CP21/24 and Feedback Statement to DP21/2

2. Trust

(i) Rationale

The FCA considers that building trust and integrity in ESG-labelled instruments, products and the supporting ecosystem is relevant to all its operational objectives: protecting consumers; protecting and enhancing market integrity; and promoting effective competition in the interests of consumers.

The FCA intends to work to ensure that market participants and consumers can trust ESG-labelled financial instruments and products and that the financial sector operates fairly, effectively and with integrity, delivering high-quality instruments, products and services which are free from 'greenwash'.

(ii) Key actions and timing

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

Given the importance of a firm's governance, purpose and culture to consumer protection and well-functioning markets, the FCA plans to do more to encourage a strong 'tone from the top' on ESG. This is to be supported by clear accountability for ESG claims and promises, and the right incentives, including through remuneration.

Further, as the focus on ESG grows, the FCA is aware that it needs to guard against 'competence-washing' by promoting genuine capability-building across the financial sector, including through functional training, and potentially certification.

Timing: Q2 2022 - FCA to begin engagement with stakeholders

(b) Support the Government's ambition to make the UK a world leader in green finance

As well as the SDR regime for entity- and product-level disclosures by asset managers and other institutional investors, the Government's [Roadmap to Sustainable Investing](#) also looked at plans for work on sustainable investment labels and expectations of investment advisors

The FCA has sought feedback on the shape of the regime from stakeholders through DP21/4.

Timing: Q2 2022 – consultation paper in light of responses to DP21/4

The FCA acknowledges the need to ensure that consumer-facing communications under the SDR regime are accessible and decision-useful.

The design of these communications will be the subject of a second phase of consumer behavioural experiments, which will build on [consumer research](#) published in July 2021.

Timing: late 2021/early 2022 – further consumer experiments

(c) Challenge AFMs’ response to our Dear Chair letter and guiding principles

In its [letter](#) to Chairs of authorised fund managers in July 2021 (see our summary [here](#)), the FCA highlighted to firms its concerns at the poor quality of some of applications for authorisation of ESG-oriented funds it had received. At the same time, it set out a set of guiding principles explaining to firms how it expected its existing rules to be applied in the ESG context.

The FCA intends to follow up on that letter in its authorisations processes and embed the guiding principles in its supervisory engagement with firms

Timing: ongoing through 2022

(d) Encourage an effective ESG ecosystem

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 become increasingly reliant on third-party ESG data services, as well as ESG ratings and benchmark indices.

As a result, it becomes increasingly important that these services are delivered in a fair, effective and transparent way. Without transparency of the methodologies used to create ratings, it can be difficult to interpret and compare outputs across providers, potentially leading to harms for consumers.

These topics were considered in [CP21/18](#) (June 2021), when the FCA sought views as to whether there is a case for regulatory intervention. The responses are currently being evaluated.

Further, in its Roadmap to Sustainable Investing, the UK Government also noted the importance of providers delivering ESG data and ratings transparently – the Government is considering bringing these firms into the scope of FCA authorisation and regulation.

Timing: Q2 2022 - Feedback Statement to CP21/18

(e) Help firms navigate competition law issues when pursuing ESG objectives

The potential tension between (a) cooperation between industry participants and (b) competition law is a topic of much debate and the FCA has considered how best to address the issue to support its ESG objectives.

The FCA will continue its collaboration with the Competition and Markets Authority in this area.

Timing: Q4 2021 / Q1 2022 – FCA to begin stakeholder engagement

3. Tools

(i) Rationale

The FCA notes that it is committed to working with others to enhance industry capabilities and support firms’ management of climate-related and wider sustainability risks, opportunities and impacts.

The actions set out under this core theme address primarily, the FCA’s use of its 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 its regulation of ESG benefits from the collective knowledge and experience of the FCA’s extensive network.

As such it has less direct impact on asset managers.

(ii) Key actions and timing

(a) Influencing and supporting internationally consistent outcomes in ESG

The FCA aims to position itself as a leader internationally and is a prominent member of ESG-focused working groups within global standard setters, such as IOSCO and the Financial Stability Board.

Timing: Ongoing

(b) Deliver an extensive and ambitious Innovation programme to develop innovative solutions to support the market and consumers

This includes matters such as (a) inviting a second cohort of the Digital Sandbox to test and develop products and services to address industry challenges in ESG data and disclosure and (b) launching the Green Fintech Challenge 2.0.

Timing: Q1 2022 - launch of Digital Sandbox and Green Fintech Challenge

(c) Continue to work closely with industry to promote collaboration, shared experience and mutual support

This includes the Climate Financial Risk Forum, co-chaired by the FCA and PRA as well as deeper engagement on ESG with the FCA's statutory panels

Timing: Ongoing

(d) Maintain close collaboration with other UK regulators and Government departments

Timing: Ongoing

4. Transition

(i) Rationale

The strategy highlights the FCA’s intention of deepening its work to support the role of finance in delivering a market-led transition to a more sustainable economy.

It notes that 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”.

(ii) Key actions and timing

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

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

The UK Government has set a clear direction of travel towards requiring the disclosure of net zero transition plans across the UK economy.

The FCA intends to engage with stakeholders, with a view to promoting credible and effective transition plans that consider the Government’s net zero commitments.

This conversation will include 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, which the FCA has proposed to integrate into its TCFD-aligned disclosure rules

Timing: H1 2022 – FCA to engage with stakeholders

- **Ensuring that the UK regulatory regime sets the right expectations and incentives under ‘E’, ‘S’ and ‘G’**

The FCA will consider the incentives in place across the financial sector to support positive ESG outcomes, and examine potential informational, institutional or regulatory barriers to a market-led transition to a more sustainable future. This work will pay particular attention to work on diversity and inclusion.

The FCA will also review its 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.

This work will start with MiFID investment firms (as part of the Investment Firms Prudential Regime).

Timing: Q3 / Q4 2022 - consultation Paper on prudential ESG disclosures Ongoing through 2022 - stakeholder engagement on other regulatory settings

(b) Encourage effective investor stewardship of net zero and sustainability

Target milestone: Ongoing through 2022

The FCA’s work on stewardship (in DP19/1 and FS19/7) has, for the past few years, been related to its work on climate change and sustainable finance and has enhanced requirements on firms to encourage effective and responsible stewardship.

The FCA intends to work closely with the Financial Reporting Council and others, building on the FRC’s strengthened Stewardship Code 2020.

It will also monitor engagement between investors and issuers and consider how well its regime supports the role stewardship can play in influencing companies’ climate strategies, holding Boards and management to account and monitoring performance against their climate commitments.

Drawing on the responses received to the FCA’s work as part of the Stewardship Regulators Group, the FCA (along with the FRC and relevant investor and issuer groups) will consider next steps, including how it could potentially help to facilitate an industry-led approach in this area.

Timing: ongoing through 2022

5. Team

(i) Rationale

The FCA is in the process of developing strategies, organisational structures, resources and tools to support the integration of ESG considerations into its activities.

Adopting a holistic and cross-cutting approach to ESG issues necessary to deliver its outcomes will require staff training and awareness, processes and systems, and high-quality data and intelligence across its regulatory functions.

At the same time, the FCA intends to hold itself to the same standards as are expected of listed companies and regulated firms.

As with 'Tools' above, the key actions listed under 'Team' are primarily internal FCA matters and so are not examined in any length here.

(ii) Key actions and timing

(a) Embed ESG considerations and the expectation that the FCA 'has regard to' net zero across FCA functions

Timing: ongoing work through 2022 to establish internal organisational structures and build capabilities

(b) Communicate and role model

Timing: Q3 2022 - publish FCA TCFD Report

(c) Continue 'systems thinking' research on the ESG landscape

Timing: ongoing through 2022

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