

Inside FCA Podcast: Interview with Sacha Sadan on climate change and sustainability

OI: Hello and welcome to Inside FCA Podcast. I'm Ozge Ibrahim and today I'll be talking to the new Environmental, Social and Governance or ESG Director Sacha Sadan, about his role and the FCA's work on sustainability and climate action in particular.

Welcome Sacha, you've recently started as the first ESG Director, why has the FCA created this new role and what are your priorities?

SS: Thank you. Well, first of all it's an honour to be the first Director of ESG at the FCA. There's a lot of work already on ESG and environmental, social and governance projects already at the FCA, but sometimes it needs to be a bit more embedded and collated together and I thought that was one of the really good reasons that I took the job. And secondly, there's a huge demand as ESG becomes quite prevalent across the financial industry, that there is more hopefully some expertise and experience to try and help many of the great work that is already being done at the FCA to try and tie this together and to help.

On your second point, you talked about priorities. Well, I've touched on it. The first thing is there's already lots of work going on in different parts of the FCA and with the transformation programme trying to get this more coordinated and the phrase that I like to use is embedded. So, hopefully there will be many parts of different parts of the FCA that might want our experience of doing ESG over the years in my team, and we can then give them the resources and some of the material needed so that they can do that whether it's in supervisory, authorisation, enforcement or other parts of the FCA. So, that would be the priorities. So new stuff, but mainly embed it across the organisation and give the tools to the actual teams to empower them to do this more often.

OI: And thinking about climate and the environmental part in particular - we've got COP26 happening this year and it feels like the right time to accelerate action to tackle climate change. What role does finance play in transitioning to a cleaner economy do you think and why?

SS: Well, I agree completely. Climate change has gone so high up the agenda, and it wasn't that long ago that I was having to shout loudly from other roles to say how important climate change was going to be for the world, and for investments. One of the things is finance has a very important role, because a lot of products, innovations, savings all come from being invested in, or lending money to, coal fired power stations. So, I think there's going to be a lot of things that finance either has helped and aided but needs to come up with new innovative products that help tackle such big problems as climate change or inequality or diversity and, therefore, finance is a very leading role.

Secondly, one of the objectives that has been given to us by the Chancellor of Exchequer is to have regard for net zero in what we do at the FCA to help the Government achieve its objectives, which is to go net zero by 2050, which is in legislation now. So, we do have a role to play, and it is an objective that the FCA has now been given.

OI: And how far along are you in that work?

SS: There's been much work done before I started, so that's great news and some of the disclosures already like TCFD - the Taskforce for Climate Financial Disclosure - is about trying to get consistent data globally, so that people can use the information to decide whether either companies or investments are on that journey. And the FCA is already consulting on expanding the disclosure format, but there is always more to be done. And as we try to embed this across the organisation and give some answers and some of the tools for the organisation, we can do more. And, as we get more answers from international organisations and global regulations, we can then hopefully use those as tools for the FCA in our regulatory powers.

OI: You've just mentioned global partners, and international partnerships are a big part of the Business Plan as well that the FCA released this year. Can you talk a bit more about what kind of work is happening there?

SS: Well, already the international team are working very closely. I've got meetings based on that with counterparts at organisations such as the EU, the SEC [U.S Securities and Exchange Commission] on how we can try and do this, because I don't think we're going to be able to do this on our own and, of course, when we listen to financial corporations and investments, they're not just based in one area most of the time and therefore we try to get some kind of consistent disclosure, because we're trying to get information for consumers to make better decisions and then protection and also that will promote competition in markets. So, absolutely working with many other, and COP26 is a perfect example where we're trying to get together and come up with financial solutions and information, but more on a consistent global basis. That's got to be the way forward if we're going to try and tackle this.

OI: There's been a huge growth in sustainable investment funds in recent years with consumers placing importance on ESG related investment opportunities. But there are concerns about so called greenwashing and whether some products really are sustainable, despite being labelled as such. How much of a problem does this pose for the financial services sector?

SS: Yes, I think it's one of those things that happens when an industry grows very quickly. Everyone goes from being cynical to excited about it and, commercially, most of the new funds and the money that is going into these investment funds is going into the more ESG or sustainable labelled areas of the market. Now, that's good news because people are moving their money. But, of course, in new areas without so much track record, we need to start making sure that people do this in the right way and sometimes when commercially things come along people get a little bit excited and label them perhaps better than they could do. So, it's absolutely part of our remit to try and have good transparency and consistency, so that consumers can know what they're getting, and so we are looking at sustainable disclosure requirements and labelling to make sure that people are not buying something that they thought it was. And I think that's a really important phrase. We don't want greenwashing in the industry because that will affect the whole industry as well, and I think a lot of our financial peers are also looking at this and I think it's really important we start putting these sort of labels and protections in place as early as possible.

OI: And can you give some examples about the work you are doing so that products are accurately badged as being sustainable?

SS: Well, already in July, the team at the FCA wrote a letter from the authorisation side, it's called a Dear Chair letter to the Asset Manager Chairman, that they were concerned with some of the funds that were coming to Authorisations at the FCA that were exaggerating some of the claims or not backing them up with the detail in the prospectus and the fund literature and we gave some examples of that, but more importantly we said what we would be expecting. So, already we're starting to do that work and we're already where we need to we're pushing back at fund authorisation level. But, more importantly, we are coming up with the labelling regime that will come out next year, which is part of HM Treasury's work on sustainability disclosure regime. And we want to use not brand new tools out there, the industry has already come up with some very good phrases and definitions on some of the different types of sustainability and ESG out there. So we want to help the industry and we've got a consultation paper coming out in November, where we ask the industry to start making sure that we get these labels right first time so that we can use them quite soon for consumers.

OI: And before the consultation comes out what action would the FCA take if firms aren't meeting your expectations in this area at the moment?

SS: Well, already as we said, certain expectations are needed before a fund is authorised. There are supervisory powers and we're looking at talking to people where we need to and, of course there is looking not just at financial services products but looking at some of the things that are mentioned in the Annual Report. We want to make sure that they're backed up with data, so you would want to make sure that we're looking at this, so TCFD being an example. Have you got a net zero plan? Who is accountable for that plan? Is it linked to someone's objectives and is it linked to somebody's remuneration? And those would be the things we would be looking for and, if not, then we would be looking with other regulators depending on the regime to be making sure that we ensure that that is the case.

OI: And what's the FCA doing to encourage industry innovation in the ESG space?

SS: Again, as we started at the beginning, I think innovative products are going to be the way that we can solve some of these problems and I absolutely think that the more we get the data, that's one of the things that the industry has been saying, we don't always have the right data to be able to do these things. So, we are using the FCA's already fabulous toolkit of the Digital Sandbox, and we've got a Green Fintech Challenge, where we're trying to get like-minded people together and see what the

problems are and how we can help them solve that and how we can get the data to solve those problems, and that is about to come through. We've got another one in November, an ESG TechSprint, and I think that would be an example where we're getting people to say, here is a really tough nut to crack: what are the different problems and what part of the chain could the FCA help solve or reduce barriers? And so, we're trying to work on that at the moment. Plus, on the sustainable disclosure requirements, we're trying to get the right information on say carbon disclosure, so that people can then find the right products to buy if they wanted to buy a reduced carbon fund in their pension. So we're trying to look at it in very many different ways, and the FCA can look at quite a lot of these areas.

OI: And are there any challenges or barriers to this work and what do you plan to do to overcome them, and how?

SS: Well, that's a big question and of course there are. Let's start with some internal challenges. First of all, when you have a topic as wide ranging as environmental, social and governance, when you're talking about your employees, you're talking about diversity, you could be talking about supply chain or tax or the environment. Everyone has views on this and so it can be difficult to try and collate and corral into the right areas and we can't do everything because we all know how many resources we have, and we have to think of the material areas. We're planning as we said to make sure that we've got the tools and we're having lots of workshops in empowering people to say, look you're already doing work in these areas because it is important in your own work and you look at governance so much on board evaluation, whistleblowing, ensuring you've got the right people are at the top of the organisations, so the governance side is very similar from the work that we do, and how can we help you?

Outside the firm, there are also big challenges and barriers. Commercial organisations always want to do well and sometimes they can embellish, maybe is the word that we could use, or they say things that are correct but maybe they are saying them too much and therefore we can get the greenwashing stuff that we've talked about. People also are very confused about ethics in ESG and everybody has different ethics, but most people should be caring that they look after their employees and other things, and we shouldn't get confused between ethics and the E of environment in ESG because they are different, and many people have very different ethics quite rightly. So, we are trying very hard to come up with those things and have the labelling at some point that can also help give that stigma.

And then the last point that I think is really important for people if they're into this area is, if you are trying to change something as something like diversity or climate change - you're trying to increase diversity - you don't want to just divest from companies that aren't good or financial products that aren't doing, you want to influence and help stay in the tent and influence change rather than just divest and some of the labelling and some of the products out there is much more saying, 'If you own this that's bad' and I think that isn't the way you're going to solve a problem, especially something like climate change. We need to transition oil and gas companies to move away, but over time, because we still need these products, rather than just saying I'm going own a product that has none of these in their portfolio. That doesn't help change the system that you're trying to change. So, it's very important that we don't just get divest equals good and owning something is bad. It's about active stewardship, and I think that's a really important point that we have to make sure we help in our role as the FCA.

OI: Thanks for your time and for sharing your thoughts, Sacha. You can find out more about the FCA's work and role on sustainability and climate change on the website. For now, stay safe and join us again soon on the next Inside FCA Podcast.

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