FCA
Financial Services
Consumer Panel

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

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By email: cp26-17@fca.org.uk

Dear FCA,

Financial Services Consumer Panel[1] response to FCA's Quarterly Consultation

The Panel welcomes the opportunity to respond to the FCA's Consultation Paper CP26/17, particularly Chapters 2 and 5. The Panel considers that this consultation brings forward two distinct but related sets of proposals: simplifying climate-related disclosures for investment products in Chapter 2, and permitting limited exposure to cryptoasset exchange-traded notes (cETNs) within authorised funds in Chapter 5.

The Panel believes that both areas have meaningful implications for consumers. However, the degree of consumer engagement informing these proposals appears limited, and the benefits of the proposed cost savings appear to accrue primarily to firms rather than to end-investors.

Chapter 2 proposes replacing the current requirement for public TCFD product-level reports with a more flexible, materiality-based approach. These disclosures would be integrated into existing product summaries, while institutional clients would retain access to emissions data, including Scopes 1, 2 and 3, on request. The FCA's own review shows that retail consumers have not meaningfully engaged with TCFD product reports, and that institutional investors often obtain data directly from firms.

The Panel notes that the significant estimated cost savings of £20 million per year primarily benefit firms, not consumers. There is no clear evidence that the FCA has consulted consumers directly, or that those savings will be passed on through lower fees or improved product value. At the same time, consumers may lose access to standardised, comparable climate information, increasing reliance on firms' materiality judgements.

[1] https://www.fca.org.uk/panels/consumer-panel

Chapter 5 proposes allowing UCITS schemes and Non-UCITS Retail Schemes (NURS) to hold up to 10% of their assets in cETNs, subject to due diligence and clear disclosures. Long-Term Asset Funds (LTAFs) and NURS operating as Funds of Alternative Investment Funds (FAIFs) would be prohibited from holding cETNs, while Qualified Investor Schemes (QIS) would face no limits.

For consumers, this introduces a controlled pathway to crypto-linked exposure within a regulated fund structure, which is, to some extent, safer than direct retail crypto trading. However, cryptoassets remain volatile and complex, and consumer understanding of ETN structures is likely to be low. The 10% cap is therefore essential to limit foreseeable harm.

As with Chapter 2, the operational changes largely benefit firms. The proposals create optionality for fund managers and align the UK with international markets, but there is no clear consumer-driven demand for cETN exposure within mainstream retail funds. Consumer engagement on this topic appears minimal.

Across both chapters, the Panel observes that consumer engagement has been limited. The FCA's evidence base relies heavily on firm feedback, industry association feedback, cost-benefit analysis, and institutional investor needs. There is little indication that consumers were consulted on:

- Whether they value standardised climate disclosures
- Whether they understand or want cETN exposure in retail funds
- Whether they support the trade-off between reduced transparency and lower reporting costs

The Panel believes this creates a risk that the proposals reflect industry preferences more than consumer priorities.

Throughout our consultation response, we emphasise the importance of clear disclosures, consistent application of reporting requirements and ongoing supervisory oversight. We would also like the FCA to engage with consumers throughout the design and implementation of these proposals, and to disclose in its consultation response the number and type of direct consumer groups and consumers it has consulted.

The Panel also notes that the naming conventions across fund types and regulatory categories are extremely complex, even for informed consumers. Terms such as UCITS, NURS, FAIFs, LTAFs and QIS are opaque and risk undermining consumer understanding.

Where possible, the FCA and industry should:

- Use plain-English descriptors alongside technical terms
- Provide simple explanations in consumer-facing materials

Simplicity is essential if consumers are to engage with disclosures and understand the risks associated with different fund structures.

We would be pleased to continue engaging with the FCA as it develops and implements these changes. Thank you for considering the Panel's response.

Yours sincerely,

Chris Pond
Chair, Financial Services Consumer Panel

Chapter 2

2.1 Do you agree with replacing public TCFD product reports with a more flexible approach tailored to the needs of retail investors? If not, please explain why and what alternative approach you would suggest.

The Panel supports replacing the public Task Force on Climate-related Financial Disclosures (TCFD) product reports with a more flexible, outcomes-based approach for retail investors. The current TCFD reports are long, too technical, and possibly rarely used by retail investors.

The FCA's proposal to integrate climate-related information into existing product disclosures is more aligned with how consumers might engage with investment products.

The Panel believes that the key benefits for consumers will be:

- Information that is shorter, clearer, and more relevant for them to read
- Climate-related risks presented alongside core risk/return information, improving visibility and understanding
- Reduced information overload and less technical jargon that consumers may struggle to interpret

However, there are risks:

- Consumers lose access to standardised, comparable product-level data. Without standardised product-level reports, consumers may find it harder to compare climate-related risks across products.
- Firms may interpret and apply "materiality" inconsistently, leading to under-disclosure of emerging climate risks.

The Panel recommends that the FCA should strengthen guidance on materiality thresholds and consider periodic supervisory reviews to ensure firms are not omitting relevant climate risks and are applying the rules consistently and in line with Consumer Duty expectations.

The Panel's support is therefore conditional on the FCA ensuring that the more flexible approach does not reduce transparency for consumers or make it harder for them to compare products. The FCA should require firms to retain a minimum set of comparable climate-related information in consumer-facing disclosures, even where full TCFD product reports are no longer published.

2.2 Do you foresee any practical or operational challenges with the proposed approach? If so, please specify which aspect and explain why.

The Panel foresees several challenges that could affect consumer outcomes:

- Inconsistent application of materiality: Different firms may reach different conclusions about what is "material", leading to uneven disclosure quality.

- Variability in timing of updates: Disclosures will be tied to existing product communications rather than a fixed annual cycle. Consumers may receive updates at different times across products, reducing comparability; this may be especially problematic due to variable volatility.
- Risk of overly brief disclosures where firms may provide minimal narrative that does not adequately explain climate-related risks.
- Reliance on internal data quality where firms rely on proxies or estimates, that could lead to misleading or inconsistent metrics unless guidance is followed closely.

The Panel also considers that the FCA should require firms to test revised disclosures with retail consumers before implementation, particularly to assess whether consumers understand the information, the trade-offs involved, and the relevance of climate-related risks to investment outcomes.

The Panel recommends that the FCA mitigates those challenges by providing clear expectations for monitoring and supervision as well as sample disclosure templates that could help ensure consistency.

2.3 Do you agree that all products in scope of the current TCFD product reporting rules should be subject to the proposed rules for communicating with institutional clients? If not, please explain why and what alternative approach you would suggest.

The Panel agrees that all products currently in scope of TCFD product reporting should remain in scope for the institutional-client disclosure rules.

Institutional investors rely on emissions data to meet their own reporting obligations. Ensuring continuity avoids:

- Data gaps that could cascade down to retail products later on.
- Inconsistent reporting across similar products
- Reduced transparency in the underlying investments, for example where those assets are held within funds that are then offered to retail investors.

The Panel believes that maintaining institutional access to emissions data helps ensure that retail products indirectly benefit from better upstream risk management.

2.4 Do you agree with reducing the metrics to scope 1, 2 and 3 GHG emissions data (at a minimum) and the supporting guidance? If not, please explain which aspect you disagree with, why, and what alternative approach you would suggest.

The Panel believes that for consumers, the priority is that disclosures remain understandable, comparable, and not misleading. The Panel therefore supports the proposal to focus on Scope 1, 2 and 3 emissions, which are widely recognised and form the core of most climate international reporting frameworks. The Panel believes that this approach reduces unnecessary complexity and cost, which ultimately benefits consumers.

The Panel notes that Scope 3 emissions are often estimated and can vary significantly from one investment house to the other. The FCA's guidance on avoiding misleading use of proxies is essential and should be strengthened.

The Panel suggest requesting firms to explain the level of estimation or uncertainty in Scope 3 data where relevant as well as disclosing the source of information and methodology used.

Where Scope 3 data is estimated, firms should explain this clearly in plain English, including any limitations, assumptions or data gaps. This is important to avoid consumers placing undue reliance on figures that may not be directly comparable across products or firms.

2.5 Do you agree with the proposed consequential amendments? If not, please specify which amendments you disagree with, why, and what alternative approach you would suggest.

The Panel agrees with the proposed consequential amendments. Removing outdated references to TCFD product reporting across the ESG Sourcebook, COLL, and other Handbook sections is necessary to ensure clarity and avoid confusion for firms and consumers.

Chapter 5

5.1 Do you agree with our proposal to allow UCITS schemes and NURS to hold cETNs? If not, please explain why.

Allowing limited exposure to cETNs gives consumers access to crypto-linked returns through a regulated, diversified, professionally managed vehicle, which is possibly safer than direct retail crypto trading as the exposure is capped, the risks are managed through active monitoring of liquidity and volatility and disclosures shall be aligned with Consumer Duty requirements.

The Panel would like to emphasise that crypto-linked ETNs remain highly volatile and complex products for retail investors that may not fully understand crypto and/or ETN structures. Overall, the Panel is broadly supportive of this addition to potential asset types as the exposure is limited and should be tightly governed by the investment management institutions offering those products and supported by investor suitability assessments. The Panel recommends that the FCA team continues to monitor closely this product offering particularly during periods of high volatility.

The Panel also notes that the FCA should be cautious about assuming consumer demand for crypto-linked exposure within mainstream retail funds. The FCA should set out what evidence it has gathered from consumers, rather than relying primarily on market or industry appetite.

5.2 Do you agree with our proposal to limit exposure to cETNs in UCITS schemes and NURS to 10% of the value of scheme property? If not, please explain why.

The Panel broadly agrees with the 10% limit. The proposed exposure limits consumers from crypto volatility on their overall fund performance. It also protects consumers from inappropriate risk-taking within retail products. The Panel believes that without a cap, retail investors could be exposed to unacceptable levels of risk.

The Panel considers that the 10% limit should be treated as a hard consumer protection backstop rather than a target allocation. Firms should not present cETN exposure as suitable or beneficial simply because it falls within the permitted limit.

5.3 Do you agree with our proposal to prohibit LTAF and NURS operating as FAIFs from holding cETNs, and that no limits should be applied in respect of QIS? If not, please explain why.

The Panel agrees with FCA's proposal for Long-Term Asset Fund (LTAF)s and Non-UCITS Retail Scheme (NURS) and QIS.

LTAF is a UK authorised fund structure designed to invest in long-term, illiquid assets such as infrastructure, private equity, and real estateintended for sophisticated retail investors and DC pension schemes. NURS on the other hand operate as a Fund of Alternative Investment Funds and they invest predominantly in other alternative investment funds (AIFs). These structures have higher complexity, leverage, and liquidity risks. Finally, Qualified Investor Scheme (QIS) is a UK authorised fund available only to professional investors and sophisticated retail investors who meet specific eligibility criteria. QIS funds can invest in a much wider range of assets and take on higher risk.

The Panel agrees with the FCA proposal because:

LTAFs and NURS operating as Fund of Alternative Investment Funds (FAIFs) are already involved in complex, illiquid, or alternative assets. Adding crypto exposure could create additional layered risks that are difficult for consumers to understand.

QIS are restricted to professional and sophisticated investors who can bear higher levels of risk. No limit is therefore appropriate as those investors can bear the risks of higher crypto exposure.

Given the complexity of terms such as LTAF, NURS, FAIF and QIS, the Panel recommends that firms explain these fund categories in plain English wherever they appear in consumer-facing materials, so that consumers understand why different protections apply.

Across both chapters, the Panel encourages the FCA to publish more detail on the extent of direct consumer engagement undertaken to inform these proposals. Where proposals reduce reporting requirements or introduce new forms of investment exposure, the Panel believes the FCA should clearly explain how it has assessed consumer understanding, consumer demand, and the likely impact on product value.