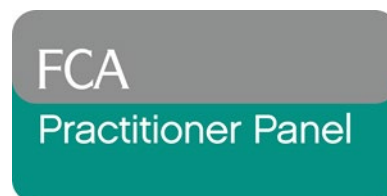


Gwil Mason
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN



By email

7 January 2022

Dear Mr Mason,

FCA Practitioner Panel Response to DP21/4: Sustainability Disclosure Requirements and investment labels

Overall, the Panel is supportive of the FCA's stated aims with regards to this consultation. It is incredibly important for the regulator to take steps to underpin the integrity of the offering customers can access by taking steps to improve transparency and clarity. When determining the best consumer-facing disclosures to utilise, simplicity is of the utmost importance and we are therefore very supportive of the consumer engagement the FCA proposes to undertake before consulting on a final set of rules.

Disclosure/Labelling

- Consistency of product labelling is welcomed and should align across all parts of the value chain to ensure full understanding by customers as to what they are getting. The crux of the matter will be in the detail (see comments below on the proposed five tier approach).
- There needs to be a balance struck in terms of being clear and consistent without becoming overly prescriptive such that strategies all narrow to do the exact same thing and potentially remove capital from areas that still need it.
- We would recommend a principles-based approach on this basis although we recognise that there needs to be some prescription, particularly with regards to minimum levels of exposure, what constitutes exposure etc. The critical success factor for this initiative should be to simplify things for those investing and to improve transparency and trust. To enable this we need a materiality filter to be applied to what is/isn't disclosed with the customer at the forefront of this.
- Differentiation between disclosures for retail and institutional customers will happen naturally anyway, with the latter likely to ask more technical questions. Even if a base level is prescribed for both, it is likely that the actual demands for each will evolve or be idiosyncratic to each customer (certainly in the institutional space). Ultimately institutional firms will enhance the level of oversight/disclosure naturally, so there is no need for there to be a separate process for them. Setting a single base level that providers/manufacturers must adhere to would seem more sensible as a starting point.
- We are supportive of having a consistent approach for Funds, MPS and DPS, as long as for DPS this is focused at a 'model' level.
- At a high level, disclosure requirements should be consistent for all requirements (SDR, TCFD, FCA, PRA etc.)
- There is merit in engaging third party verification as it could help with customer understanding. However, there is an inherent cost which is ultimately borne by customers. With the correct level of prescription/principles this should be achievable without the need for third party verification, but that said, rating agencies will quickly look to fill this space therefore steps should be taken to ensure it is appropriately regulated now.
- It is important for the regulator to appreciate that data quality is not where it needs to be across the industry to support what is articulated in this proposal. The existing lack of consistency may cause challenges for disclosures (already the case with TCFD). Any

action the regulator can take to enhance data quality across the industry would speed up adoption of any such proposals.

Proposed Classification Approach

- The five tier approach adds unnecessary complexity, given that the FCA acknowledges there is already an accepted/embedded three tier system in place based on SFDR. The three tiers should broadly fit with their proposals, i.e.
 1. no ESG/sustainable investment (bar regulatory requirements);
 2. some ESG/sustainable investment (with minimum thresholds), and
 3. full ESG/sustainable investment.
- We believe three 'flavours' of sustainable is quite complex and are concerned that impact does not align with sustainable on the basis that in their truest sense they are distinctly different styles.
- Another option the FCA may want to consider is to have four buckets – Traditional; then Responsible, perhaps more clearly defined using the PRI definition, (which includes sustainable-transitioning); Sustainable could then sit as aligned, with impact sitting as a distinct bucket.
- There is a potentially huge issue around impact and how this is being measured and used as a marketing tool. As part of this, having specific sustainability metrics would be helpful and there should be a clamp down on comments such as 'this fund will save you the equivalent of x' when x is vague and potentially unverifiable.

Existing Initiatives

- There is an issue about different geographies delivering different green taxonomies – we really need a global framework as we invest globally and have to navigate different standards and requirements in different countries.
- We would recommend the FCA considers the BSI approach as it seeks to look at the whole responsible investment ecosystem.
- Whilst we believe there are some useful definitions in the IA responsible investment framework, we believe too much is 'lumped' into their 'sustainability focus' and so caution should be applied on this basis.
- The PRI is the most prominent body of all on responsible investment.
- We would also recommend that FCA engages with existing data providers such as Sustainalytics or MSCI.

Expectations of firms

- We agree that a firm should meet minimum criteria before it can offer Responsible or Sustainable products, for example the UNPRI or Stewardship code.
- Companies should have clear and robust policies for all aspects of responsibility for their own operations as well as their investment products.
- There is an argument that a higher bar should be set for sustainable (although hope is that moving forward there will be a higher bar set across the board anyway).
- We believe advice and platform firms have a role to play in this and should be engaged as part of these proposals.

Transitioning Assets

- Regarding transitioning assets, firms may not offer a 'transitioning' multi asset/FoFs product but may wish to offer some transitioning assets either directly or through third party managers. What is important is that these assets get recognition for the transitioning and are not excluded from 'responsible products' because they are not there yet. A measure of the quality/integrity/level (or something similar) of the transitioning would be useful to enable assets to be compared – albeit this will likely be fairly subjective.

Reporting

- We believe all strategies should be subject to some form of reporting not just those which are classified as sustainable.

Yours sincerely,

Paul Feeney
Chair, FCA Practitioner Panel