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

FCA
Smaller Business Practitioner Panel

By email

7 January 2022

Dear Mr Mason,

DP21/4: SUSTAINABILITY DISCLOSURE REQUIREMENTS AND INVESTMENT LABELS

The Panel welcomes the fact that the FCA is engaging widely on this topic with parties already well versed in the sector. Likewise, it's encouraging that it does not seem to be seeking to 'reinvent the wheel' but rather building upon the work already in progress, including that of the Investment Association and the Sustainable Finance Disclosure Regulation (SFDR).

Clarity

The aspiration to provide clarity to end consumers is clear, but the terminology being used in exemplars remains clearly rooted in 'industry-speak' with phraseology such as 'alignment and transition' used to refine a 'sustainable approach'. Clarity in plain English is important, not only for consumers but also for advisers, many of whom may not be so well versed in the nuances of the sector.

Many advisor firms will be small firms. It would be helpful if, in tandem with this consultation, greater clarity was given to them to plan for how they engage with clients on the topic. It is noted that the MiFID requirement for a question to be asked of clients about ESG issues was not on-boarded post Brexit. Advisers need to have clarity about what they should ask and why. There are a several factors here, for example:

- The lack of requirement for a question to be asked remains a potential blockage in growth of the sector;
- Advisers need to understand what they need to ask and how this relates to a product or service.

The 'Strategy for Positive Change; ESG priorities' talks about concerns over competency washing – again there is a potential for concern about skills and knowledge and whether there will be any regulatory requirement for demonstration of knowledge in this sector.

Claims management companies

The Panel has already seen anecdotal evidence of this being a potential area for CMC claims (ie not having sought confirmation on ESG issues when making an investment recommendation) therefore clarity and a clear timescale for this issue is required.

Scope

The focus on the consultation is on product manufacturers and consumers. That is logical and understood – but it seems to overlook a significant aspect of the market and that is that collective fund products are increasingly distributed via third parties, namely wealth managers and platforms. There will be many smaller businesses running wealth management firms with discretionary model portfolio services. It's unclear as to whether they will also have to consider 'labelling' of their services and how that would translate into selection and management of funds, as well as communication to the client. The Panel would suggest that as smaller businesses, with fewer resources, they may well need clear guidance from the FCA as to how they should be planning for this new regime, including how they then communicate to clients on a portfolio that may well include funds with different labels.

Community investment is mentioned in the context of Impact. Most community investment offers are mainly run by small businesses, only some of which are authorised by the FCA. In the context of discussing 'Impact' it would be important to have greater consideration of these businesses when addressing the issue of impact and a labelling regime.

Labelling and terminology

The concept of a single 'Responsible' label feels very broad, where it can effectively cover both a light touch fund taking cognition of ESG risks in stock selection and an extensively negative screened fund basing exclusions on strong values, principles and ethical criteria.

The concept of values and ethics seem to be a bit of a hindrance in the process – for example talk the need to "disentangle ethical investing from sustainability".

We would be happy to discuss any of these points further.

Yours sincerely,

Marlene Shiels
Chair, FCA Smaller Business Practitioner Panel