Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers

Lead regulator	Financial Conduct Authority
Summary of proposal	The measure introduced financial disclosure requirements for asset managers, life insurers and FCA-regulated pension providers on how they take climate-related matters into account when managing investments on behalf of clients and consumers.
Submission type	EANDCB validation
Legislation type	Regulator
Implementation date	1 January 2022
Policy stage	Final
RPC reference	RPC-FCA-5243(1)
Opinion type	Formal
Date of issue	24 November 2022

RPC opinion

Rating[1]	**RPC opinion**
Fit for purpose	The FCA has produced a proportionate assessment, when taken with the supporting cost benefit analysis. The EANDCB figure has been informed by a variety of sources, including a survey of businesses affected, and appears to be reasonably robust.

Business impact target assessment

	Department assessment	**RPC validated**
Classification	Qualifying regulatory provision (IN)	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£133.7 million	£133.7 million *(2019 prices, 2020 pv)*
Business impact target (BIT) score	£668.4 million	£668.5 million
Business net present value	-£1,150.7 million	
Overall net present value	-£1,150.7 million	

[1] The RPC opinion rating is based on the rating for the robustness of the EANDCB, as set out in the business impact target statutory guidance and the better regulation framework. The RPC rating will be fit for purpose or not fit for purpose.

RPC summary

Category	Quality[2]	RPC comments
EANDCB	**Green**	The EANDCB figure appears to be supported by sufficient evidence and data, including a survey of affected businesses, and, with the cost benefit analysis at link, there is sufficient information on how the figure has been calculated.
Other comments	**Satisfactory**	Although not required for framework purposes, the assessment would benefit from discussing risks, wider economic impacts and plans for monitoring and evaluation.

[2] The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings here.

Summary of proposal

The FCA has introduced climate-related financial disclosure requirements for asset managers, life insurers and FCA-regulated pension providers. This requires them to make disclosures on how they take climate-related matters into account when managing investments on behalf of clients/consumers and product/portfolio-level disclosures on climate-related attributes, including a core set of metrics. This is aimed at enabling enable clients and consumers to take these matters into account when granting mandates or selecting products, and to hold their providers to account. The assessment reports that 140 asset management firms and 34 asset owners are in scope of the measure.

EANDCB

The assessment estimates an EANDCB figure of £133.7 million (2019 prices; 2020 present value base year). This reflects estimated one-off and annual costs of £232.4 million and £125.4 million, respectively. The large majority of costs fall on asset managers and covers the cost of coordinating disclosure inputs across functions, undertaking climate scenario analysis and producing climate metrics and targets.

The underlying cost benefit analysis (see annex 2 at link here) explains in more detail how these costs have been estimated. The assumptions and cost estimates have been informed by a range of sources, including data gathered directly from industry via roundtables; a survey of a sample of 23 firms (15 of which responded); reports and publications on the status of climate-related financial disclosure; and FCA internal data on self-invested pension plan operators. The EANDCB figure appears to be supported by sufficient evidence and data and, with the cost benefit analysis at link, there is sufficient information on how the figure has been calculated.

The assessment takes account of some businesses already taking steps to voluntarily implement these measures. This is done through applying 'discount factors', based upon information from the UN's Principles for Responsible Investment database. The assessment could be improved by setting out more clearly how the discount factors have been calculated from this information. The assessment would also benefit from setting out more specifically how some of the assumptions have been arrived at from the evidence collected (for example, the 1.5 hour's familiarisation assumption).

Other comments

Impact on SMBs

There is no framework requirement for a small and micro-business assessment for regulator submissions. However, the assessment helpfully notes that a threshold of £5 billion of assets under management (AUM) excludes the smallest firms from the scope of the measure, given that the direct costs to their firm may be relatively high as a proportion of their AUM. The assessment additionally notes that the rules are being phased in, recognising that smaller firms within the scope of our rules may need longer to build capabilities.

Benefits, wider impacts and risks

The assessment does not quantify benefits but undertakes a break-even analysis, demonstrating that the measure would break-even if it yielded benefits of a tiny fraction of the value of assets being managed and owned. It is not clear how likely this would be and the analysis here is of limited value. The assessment would benefit from providing further justification for why it considers benefits to outweigh costs. The BIT assessment or supporting cost benefit analysis would benefit from also considering the risk of the measure diverting investment funds away from potentially high yield assets, particularly given recent concerns about energy security and scarcity of supply. An assessment of the potential wider economic implications of the proposal would be particularly valuable given that the measure is clearly aimed at changing business decision-making.

Monitoring and evaluation plan

Although not a framework requirement for a regulator submission, the assessment or supporting cost benefit analysis would benefit from including a monitoring and evaluation plan, particularly given the substantial cost on business, uncertainties around benefits and issues around measuring its impact.

Rationale for intervention

Although not a framework requirement for regulator assessments, it would be helpful if the assessment provided a summary of the rationale for intervention, with reference to market failures, drawing upon information in the consultation paper and cost benefit analysis, as appropriate (or at least providing specific references to where this information can be found). It would be helpful if this specifically addressed why it is not possible or desirable to leave it to the market to provide incentives for asset/fund managers to make available climate-related financial information.

Other measures

There have been a number of recent impact and BIT assessments on previous climate-related financial disclosures measures.[3] These appear to involve similar measures but applying to different types of companies. The assessment would benefit from proportionately referring to previous measures and how this measure fits into that context.

The assessment would also benefit from explaining how the measure, which focusses solely on climate-related financial disclosure, relates to regulatory activity in the wider ‘Environmental, Social and Governance’ context.

[3] Including one from BEIS (RPC reference: BEIS-5061) and two from the FCA (FCA-5166 and FCA-5217).

Regulatory Policy Committee

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