Climate Change and Green Finance: summary of responses and next steps

Feedback to DP18/8

Feedback Statement

FS19/6

October 2019

Contents

How to navigate this document

- returns you to the contents list
- takes you to helpful abbreviations
- takes you to the previous page
- takes you to the next page
- prints document
- email and share document

1 Summary

What this Feedback Statement is about

1.1 In October 2018, we published our Discussion Paper (18/8) on Climate Change and Green Finance. This sought views on potential FCA action on climate change and green finance, in line with our strategic objective of ensuring relevant financial markets function well.

1.2 This Feedback Statement presents our evolving approach following the Discussion Paper and sets out:

- Why climate change is an important issue for us, the financial services sector, and for the users of financial services that we are here to serve (section 2)
- A summary of feedback to our Discussion Paper and our responses (section 3)
- Our actions and next steps (section 4)

Who will be interested in this feedback statement

1.3 This Feedback Statement is likely to be of interest to, but not limited to, the following:

- consumer groups and individual consumers
- charities
- industry groups/trade bodies
- regulated firms
- issuers, investors, and advisors to issuers and investors
- policy-makers and regulatory bodies
- industry experts and commentators
- academics and think tanks

Why is this important

1.4 Climate change itself, and the legislative response to combatting climate change, is having a significant impact on the UK economy and on financial services markets.

1.5 The impact on financial services markets, and the potential for financial services markets to help combat climate change, is well known. There are a number of global, EU and UK initiatives on this issue. For example, the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD), the European Commission's Sustainable Finance Action Plan (SFAP) and the UK Government's Green Finance Strategy (GFS).

1.6 Within the scope of our own responsibilities, we want to ensure our regulatory approach creates an environment where market participants can adequately manage the risks from moving to a low carbon economy and are able to capture opportunities to benefit consumers. More broadly, we want to help firms and consumers bring about wider societal benefits by accelerating the transition to a net zero emissions economy, consistent with the Government's commitment as set out in the GFS.

1.7 Doing so will contribute to our overarching strategic objective to ensure that relevant markets function well, and to advancing our three operational objectives:

- To secure an appropriate degree of protection for consumers
- To protect and enhance the integrity of the UK financial system
- To promote effective competition in the interests of consumers

Outcomes we want to enable

1.8 To meet our strategic and operational objectives in respect of climate change and green finance, we will focus on three outcomes:

- Issuers provide markets with readily available, reliable and consistent information on their exposure to material climate change risks and opportunities.
- Regulated financial services firms integrate consideration of material climate change risks and opportunities into their business, risk and investment decisions.
- Consumers have access to green finance products and services, which meet their needs and preferences, and receive appropriate information and advice to support their investment decisions.

1.9 Doing this will involve close collaboration with Government, other regulators and industry, particularly as work on common global metrics and standards on sustainability is still developing.

Summary of feedback

1.10 We received 73 responses to our Discussion Paper from a range of stakeholders, including regulated firms, trade bodies and think tanks. These responses, and insights gathered through extensive stakeholder liaison, have been an important input into our thinking on how to achieve these outcomes. The feedback is summarised under five key themes:

1. Climate-related disclosures by securities issuers
2. Climate-related disclosures by regulated firms
3. Common metrics and standards on sustainability
4. Stakeholders' concerns, commercial priorities and barriers to growth
5. Industry engagement

1. **Climate-related disclosures by securities issuers.** Respondents noted challenges in determining the materiality of climate change risks. They stressed the value of consistent, comparable and high-quality disclosures of material risks to enable issuers and investors to take account of climate change risks. Respondents expressed general support for further guidance in this area and saw potential value in additional rules on issuer disclosures of climate-

related risks, emphasising the need for these to be proportionate. The TCFD's recommendations were widely regarded as providing a useful framework.

2. **Climate-related disclosures by regulated firms.** Overall, respondents were supportive of introducing climate risk disclosure requirements for regulated firms. Again, there was support for requirements to be aligned with or based on the TCFD's recommendations but views differed on how broadly they should apply across the range of regulated firms. Proportionality was a frequent concern. While roughly half of respondents supported a disclosure requirement for all regulated firms, others suggested taking an approach that was more proportionate to a firm's size and risk profile.

3. **Common metrics and standards on sustainability.** Some respondents expressed concerns around the difficulty in identifying genuinely green activities for investors to invest in. As such, respondents were supportive of internationally agreed standards and metrics for defining the sustainability characteristics of financial products. It was noted that several industry initiatives, as well as the SFAP, are developing standards in this space.

4. **Stakeholders' concerns, commercial priorities and barriers to growth.** Respondents noted a variety of concerns. Around half of respondents cited the persistence of a 'short-term results culture' in finance, which may be limiting the growth of the green finance market. The absence of common standards and metrics and insufficient and poor-quality data, as noted above, were also mentioned as barriers to effective product design and delivery, since this may make it difficult for consumers to validate the information they receive about products. This could increase the risk that products are misleadingly marketed as producing positive environmental outcomes, or 'greenwashed'. Some respondents also suggested that Government and regulators could do more to actively incentivise the emergence of innovative green finance products.

5. **Industry engagement.** A number of respondents saw active industry engagement as an important way for the FCA to communicate its expectations on climate-related matters and to keep abreast of concerns and challenges in this space. They also saw engagement as an opportunity for the FCA to build momentum in green initiatives and accelerate work on climate-related financial disclosures. There was also support for the Climate Financial Risk Forum (CFRF), established with the Prudential Regulation Authority (PRA), as a means of bringing together representatives across the financial sector to share best practice and develop practical tools and approaches to address climate-related financial risks.

1.11 More details on the feedback we received from stakeholders and our responses in each of these areas are set out in section 3.

Our actions and next steps

1.12 Having reflected on the feedback we received, we have identified a number of priority near-term actions, which will provide a foundation for future work on climate change and green finance.

Issuers' climate change disclosures. In early 2020, we will publish a Consultation Paper:

- proposing new disclosure rules for certain issuers aligned with the TCFD's recommendations on a 'comply or explain' basis
- clarifying existing disclosure obligations relating to climate change risks

Firms' integration of climate change risk. Building on existing work, we will:

- publish a Feedback Statement in the coming weeks in response to a joint Discussion Paper with the Financial Reporting Council (FRC) on stewardship, which will signal our continued supervisory and policy interest in this topic and set out some actions to help address some of the most significant barriers to effective stewardship
- finalise proposed rule changes requiring Independent Governance Committees (IGCs) to oversee and report on firms' environmental, social and governance (ESG) and stewardship policies, by the end of 2019
- finalise proposed rule changes to facilitate investment in patient capital opportunities, in due course

Expectations around green financial products and services. We will:

- challenge firms where we see potential greenwashing, clarify our expectations and take appropriate action to prevent consumers being misled
- carry out further policy analysis on greenwashing and take action (e.g. guidance) to address concerns as appropriate
- engage and consider the proposals of the SFAP relevant to products and services, particularly around common standards and product disclosures

Joint work with Government, other regulators and industry. We will continue to contribute to collaborative initiatives such as:

- the CFRF
- the Fair and Effective Markets Review (FEMR) working group
- supporting the GFS through membership of the Government-led cross-regulator taskforce on disclosures
- the European Commission's SFAP

1.13 More details about these and further actions we are taking are set out in section 4.

2 Why this is important

2.1 Climate change presents a potentially irreversible threat to the planet. The complex and uncertain impact it is having, and will continue to have, is serious and wide-ranging for the UK economy and for the financial services market.

2.2 The financial risks of climate change are usually categorised as physical or transitional risks. The physical risks, such as more severe and frequent extreme weather events like storms and flooding, may lead to increased business disruption and losses from weather events as well as potentially impact the availability and cost of insurance. This means that the value of investors' portfolios could fluctuate substantially and insurance customers, including businesses, may pay higher premiums or choose not to take out coverage, leaving them exposed to potential future losses.

2.3 Transitioning to a greener economy presents different risks that arise from extensive policy, legal, technological, market and behavioural changes. This is likely to impact some businesses' operating costs, particularly those that rely on fossil fuels, and could have a material impact on asset values in some sectors. If this transition is poorly managed or ineffective, this could significantly affect the market for financial services and the users of these services. This impact is likely to be particularly acute for longer-term investments, such as pension funds.

2.4 This Feedback Statement focuses on our approach and actions to climate change and green finance.[1] It is, however, important to note that we are considering these issues within the context of the wider social and public policy interest in sustainability and the development of the market for sustainable finance.

The wider context

2.5 Increasing awareness and understanding of the impacts of climate change has highlighted the role that the financial sector can play in supporting the transition to a greener economy.

2.6 This has contributed to the growing consumer demand for green financial products and services, as suggested by recent figures from the Climate Bonds Initiative. Their market summary of the first half of 2019 suggests that global labelled green bond issuance reached $117.8 billion, surpassing the H1 2018 volume by 48%. Beyond green bonds, there is also an increasing range of green financial products and services available to consumers, from green loans for small businesses to green mortgages, which offer lower rates to home owners who want to buy an energy-efficient property. Barclays were the first major lender to offer a green mortgage in the UK in 2018.

2.7 There is an expanding public policy focus on green finance in the UK and globally to support further growth. This has resulted in several policy developments and initiatives, which provide an important backdrop for our role and actions in this space.

1 Green finance is defined by the G20's Sustainable Finance Study Group as the 'financing of investments that provide environmental benefits in the broader context of environmentally sustainable development'.

Green Finance Strategy

2.8 The UK Government has made a legally binding commitment to achieving net zero greenhouse gas emissions by 2050. To meet this challenge, the Government published its Green Finance Strategy (GFS) in July 2019, emphasising the vital role that financial services play in financing the 'greening' of the economy.

2.9 Greening the economy will require close collaboration between Government, regulators and the industry. As such, in response to the GFS, we issued a joint declaration alongside the Prudential Regulation Authority (PRA), Financial Reporting Council (FRC) and The Pensions Regulator (TPR), setting out our commitment to working together on this issue.

2.10 This includes being an active member of a Government-led cross-regulator taskforce considering the most effective way of improving climate-related disclosures. The taskforce, chaired by HM Treasury (HMT), has been launched in response to the Government's expectation in the GFS that all listed companies and large asset owners publish climate-related financial disclosures in line with the recommendations of the Financial Stability Board's (FSB) Taskforce for Climate-related Financial Disclosures (TCFD) by 2022.

2.11 The TCFD's recommendations promote consistent disclosures by both commercial companies and financial services firms on the material financial impacts of climate change. Currently a voluntary framework, the TCFD's recommendations span disclosures in the areas of governance, strategy, risk management and metrics and targets.

Sustainable Finance Action Plan

2.12 At the EU level, the European Commission's Sustainable Finance Action Plan (SFAP) is examining how to integrate sustainability considerations into its financial policy framework in order to mobilise finance for sustainable growth. This includes work to develop sustainable finance benchmarks, new sustainability disclosure requirements and a taxonomy to define what an environmentally sustainable economic activity is. The benchmarks regulation is expected to take effect from early 2020, and the disclosures regulation from early 2021.

2.13 Amendments are also being made to the supporting 'Level 2' rules under key pieces of EU financial regulation – including the Markets in Financial Instruments Directive (MiFID) and the Insurance Distribution Directive (IDD) – relevant to institutional investors, asset managers, investment advisors and other intermediaries, requiring them to consider sustainability risks in their activities. Other EU initiatives include work on non-financial disclosures, short-termism and green bonds.

2.14 In the GFS, the Government stated its commitment to at least matching the ambition of the objectives of the SFAP in relation to green finance irrespective of the outcome of the UK's withdrawal from the EU. We recognise the potential benefits of common benchmarks, standards and metrics for environmentally sustainable products and activities and will continue to consider, with the Government and other regulators, what actions might be necessary to match this ambition.

Climate Financial Risk Forum

2.15 Industry collaboration will be key in supporting the transition to a net zero emissions economy. Initiatives include the Climate Financial Risk Forum (CFRF), which we jointly established with the PRA earlier this year, bringing together senior representatives from across the sector to produce practical tools, guidance and recommendations for firms in responding to climate-related risks. The CFRF has established working groups focused on disclosures, innovation, scenario analysis and risk management to produce these outputs.

Our role and approach as a regulator

2.16 Climate change presents a unique regulatory challenge. It is a cross-cutting issue that has an impact on all market participants – from issuers to financial services firms to consumers – but the impact it will have is uncertain.

2.17 Our approach will continue to evolve over time as our understanding of the potential impacts deepens. We also want to work with others to make sure that the actions we take appropriately consider the wider context and are not duplicative.

2.18 In doing so, we want to achieve our overarching strategic objective to ensure that the relevant markets function well, as well as advancing our three operational objectives:

- To secure an appropriate degree of protection for consumers
- To protect and enhance the integrity of the UK financial system
- Promoting effective competition in the interests of consumers

To secure an appropriate degree of protection for consumers. We want to ensure that consumers have access to green financial products and services that meet their needs and preferences, and are appropriately protected when purchasing them. This includes considering the impact of climate change on the availability or cost of products and services, as well as ensuring consumers receive appropriate information so that they can make informed decisions. For example, it is not always clear what firms or consumers mean by, or expect from, 'green products'. Common definitions and standards are being developed, but this will take time. Without these, there is a risk that consumers suffer harm from 'greenwashing'.[2] We want to protect consumers from this in a proportionate way that allows firms to innovate to meet consumers' needs and preferences as the market continues to develop.

To protect and enhance the integrity of the UK financial system. It is important that the UK's financial markets can both respond to climate-related risks and support the transition in a stable and orderly way, promoting trust in an effective and transparent market. Doing so will include ensuring that material climate change risks and opportunities are disclosed, which will support the market in appropriately pricing assets and making informed decisions.

To promote effective competition in the interests of consumers. Effective disclosure and consideration of climate-related risks, as well as product and service information, is also directly relevant to our focus on promoting competition in the interests of consumers and enabling effective choice. Under this objective, we are also keen to promote positive innovation in green finance, which will help to meet changing consumer needs and support the transition to a greener economy.

2 As set out in our Discussion Paper, 'greenwashing' is marketing that portrays an organisation's products, activities or policies as producing positive environmental outcomes when this is not the case.

2.19 We welcome the Government's announcement that the need to have regard to the Paris Climate Agreement when advancing our objectives and discharging our duties will be reflected in the next Letter of Recommendation that HMT issues to the FCA.

2.20 Considering our objectives in light of these expectations, and building on what we set out in our Discussion Paper, we want to ensure our regulatory approach creates an environment where market participants can adequately manage the risks from moving to a low carbon economy and are able to capture opportunities to benefit consumers.

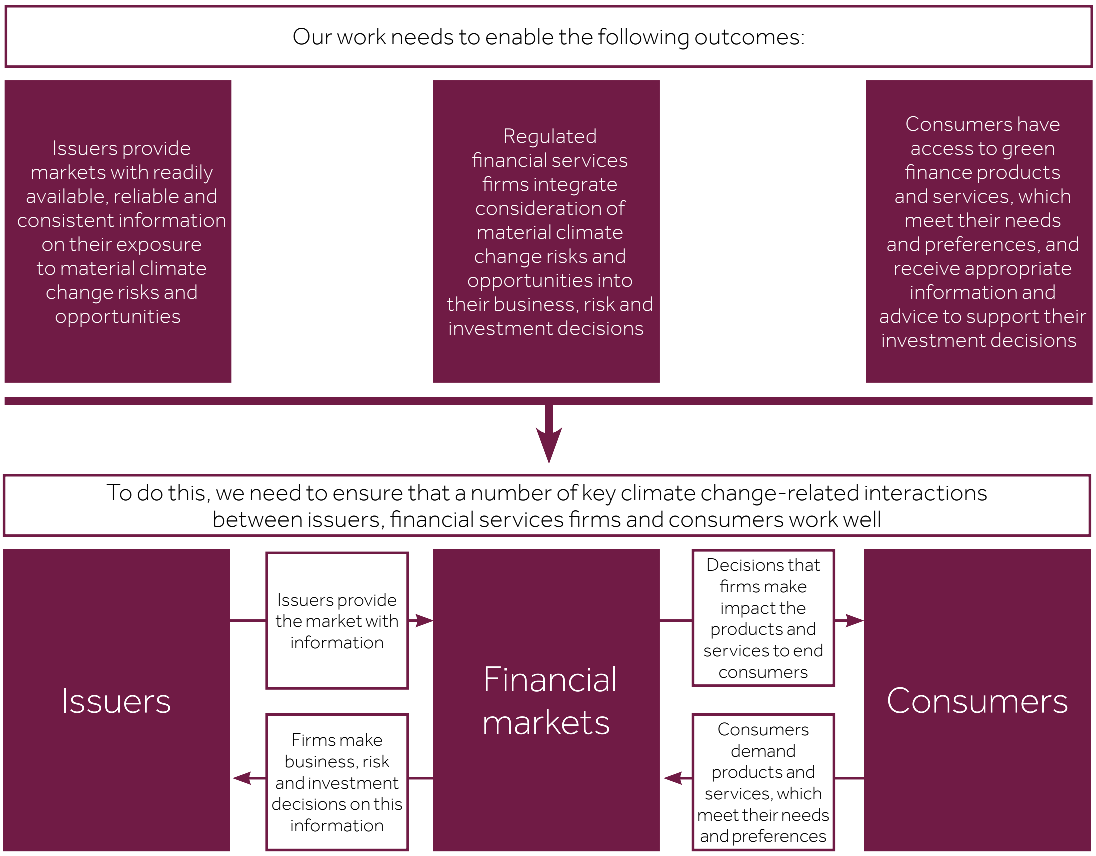
2.21 More broadly, we want to help firms and consumers bring about wider societal benefits by accelerating the transition to a net zero emissions economy, consistent with the Government's commitment.

2.22 To achieve this and meet our strategic and operational objectives, we need to ensure that markets, and key interactions between market participants, work effectively and are trusted so that harms to the sector and consumers do not occur. We are focused on delivering the following outcomes:

- Issuers provide markets with readily available, reliable and consistent information on their exposure to material climate change risks and opportunities.
- Regulated financial services firms integrate consideration of material climate change risks and opportunities into their business, risk and investment decisions.
- Consumers have access to green finance products and services, which meet their needs and preferences, and receive appropriate information and advice to support their investment decisions.

2.23 How these outcomes relate to some of the key interactions between issuers, financial services and consumers are illustrated in Figure 1 below.

Figure 1: Key climate-related interactions between issuers, financial services and consumers



2.24 These interactions may capture a variety of activities. For instance, they may entail the flow of information, funds, assets or products between issuers, financial markets[3] and consumers.[4] In the climate change context, these interactions could be issuers disclosing material climate-related risks to the market, financial services firms using these disclosures to inform business, risk and investment decisions, or financial services firms offering green financial products and services to consumers.

2.25 These interactions are not mutually exclusive. For example, the information that issuers disclose could be used by financial services firms to make decisions on whether to offer a specific product or service to an end consumer. And consumer demand for 'greener' products or services could prompt financial services firms to make different decisions about whether to invest in issuers' projects.

2.26 If these interactions do not work well, this could cause harm to consumers, undermine market integrity and stability, or impair competition. This could potentially impact adversely the transition to a greener economy.

3 In this context, 'financial markets' is a broad term that could include a range of regulated and unregulated firms and activities. For example, it could include regulated financial services firms (e.g. asset owners, asset managers, banks, financial advisors, insurers) making different decisions and offering different products and services, as well as wider actors who support financial market activities (e.g. analysts, credit rating agencies, index providers).

4 In this context, 'consumers' refers to end consumers of financial services. For example, focussing on investments, this could include retail investors as well as investment institutions making decisions using products or services provided by other financial services firms.

2.27 For example:

- If issuers make inconsistent, unreliable or insufficient climate-related disclosures to the market, assets may be mispriced (too high or too low) because the market is unable to determine the true value of the assets.
- If regulated financial services firms fail to manage the risks of climate change appropriately, market resilience and stability could be undermined, resulting in poor outcomes for consumers.
- If investors and end consumers do not receive the appropriate information and advice to understand whether a product they are offered is genuinely green or sustainable, there is a risk that they purchase unsuitable products. There may also be a risk of mis-selling, or 'greenwashing'.

2.28 In considering how to address these harms, we have engaged with various Government, EU and international initiatives in this area and the need to work in partnership with other regulators where our remits are closely linked or overlapping. We also have taken into account the responses we received to our Discussion Paper published in October 2018, summarised in section 3, as well as our wider engagement with stakeholders.

2.29 Taken together, this has informed our actions and next steps, which are set out in section 4.

3 Summary of feedback and our response

Overview

3.1 In this section, we summarise the feedback received in response to our Discussion Paper. The feedback is presented under the following themes:

1. Climate-related disclosures by securities issuers (Q1, 2, 3)
2. Climate-related disclosures by regulated firms (Q4, 5, 6, 8)
3. Common metrics and standards on sustainability (Q9)
4. Stakeholders' concerns, commercial priorities and barriers to growth (Q11, 12)
5. Industry engagement (Q7, 10)

3.2 A full list of the questions we asked in the Discussion Paper is set out in Annex 1. The questions are listed in the order they were asked. Please note that this is different from the original numbering of the questions.

3.3 We received 73 responses from a range of stakeholders, including regulated firms, trade bodies and think tanks. We thank stakeholders for taking the time to respond. A list of non-confidential respondents is available in Annex 2.

1. Climate-related disclosures by securities issuers

3.4 Under our rules, listed issuers and other companies with securities admitted to trading on regulated markets must meet a range of disclosure requirements, both when securities are first listed or admitted to trading and on an ongoing basis. These disclosures are intended, among other things, to help markets reach an informed view on the value of traded securities.

3.5 We noted in our Discussion Paper that we would be consulting on guidance to issuers about how the current regulatory regime might be interpreted to apply to climate change-related risks. This would include guidance to clarify our view that existing disclosure obligations would capture reporting of implications of climate change on a business where these are financially material. In our questions on this topic, we sought views on difficulties that issuers may face in interpreting materiality in the climate change context (Q1).

3.6 We also sought feedback on other approaches and frameworks that might enhance the consistency, comparability and decision-usefulness of climate-related financial disclosures (Q2, Q3). We noted, for instance, that a number of issuers are already disclosing in accordance with the TCFD's recommendations.

Feedback received

3.7 Respondents acknowledged that existing disclosure requirements should already capture financially material climate-related risks, with some referencing existing guidance from the FRC for certain disclosures. However, respondents, spanning the full range of stakeholder types, also provided extensive feedback on the challenges in determining materiality, particularly given the complexity of climate change risks. Different approaches to addressing these challenges could lead to inconsistencies in issuers' approaches to disclosure.

3.8 Key challenges identified included: specifying an appropriate time horizon (particularly since many climate-related risks may crystallise beyond a company's typical planning horizon); modelling and methodological difficulties; and issues in sourcing appropriate data inputs.

3.9 There was broad support for steps to promote greater consistency in the approach to materiality, and to disclosures more generally. We heard that consistency and comparability in issuer disclosures – across companies, sectors and jurisdictions – is important if they are to be useful for decision-making. A small number of respondents cautioned, however, that care should be taken not to sacrifice quality in pursuit of consistency and to avoid disclosure becoming a box-ticking exercise.

3.10 Overall, there was appetite for the FCA to clarify existing issuer disclosure requirements and potentially strengthen them via rules, in a proportionate manner. This would not only improve the flow of information to the market, but also give issuers greater certainty about what is expected. The FCA was also encouraged to supervise and enforce rules on disclosure in this area robustly.

3.11 Many respondents noted the FCA should ensure that any additional disclosure requirements are not too prescriptive and onerous. It was suggested that disclosure expectations could vary depending on a company's size and sector, with more extensive requirements for sectors most exposed to the impacts of climate change.

Taskforce for Climate-related Financial Disclosures

3.12 The TCFD's 11 recommendations were widely regarded as providing a useful framework for climate-related financial disclosures. It was noted that there was already a high level of buy-in for this framework across both issuers and users in the UK and internationally, and across a range of sectors (including financial services).

3.13 A few respondents noted that the industry is also already developing practical tools to help implement the TCFD's recommendations and several standard-setters and disclosure initiatives had begun to align with the recommendations. It was noted that the Green Finance Task Force had recommended the adoption of the TCFD framework.

3.14 A few respondents, including some investors and interest groups, saw particular value in the scenario analysis component of the TCFD's recommendations. This would both provide the market with useful forward-looking information and be a useful discipline for issuers. They also highlighted the uplift in capabilities that would be required relative to current practice.

3.15 Stakeholders acknowledged therefore that adoption of the TCFD framework would be an important first step but that further guidance would need to be developed over time to ensure an appropriate degree of consistency and comparability, particularly in relation to scenario analysis.

3.16 Respondents were divided as to whether a 'comply or explain' approach would be sufficient to encourage consistent disclosures, or whether a strict 'comply' approach was necessary to deliver the desired change. Two thirds of the 60 respondents to this question supported a 'comply or explain' approach, although a significant proportion of these considered it a path to mandatory disclosures in the future. The majority of the remainder – mainly investors and environmental interest groups – favoured a strict comply approach from the outset.

3.17 A small number of respondents, primarily representing the issuer community, preferred a voluntary approach, but acknowledged that issuers could usefully be steered towards the TCFD's recommendations as a reference. However, we note that we received a limited number of responses from issuers.

Our response

3.18 We note the general support for further guidance in this area and the potential value of additional rules on issuer disclosures of climate-related risks and opportunities. A consistent disclosure framework, underpinned by rules, can make disclosures more useful for investors in their decision-making. It can also help issuers by clarifying what is expected. This can in turn reduce the cost of meeting ad hoc information requests from investors, and help to promote a structured dialogue within a company on matters of governance, strategy and risk.

3.19 We acknowledge both the support for, and the widespread adoption of, the TCFD's recommendations as a framework for climate-related disclosures. We also note that, since we published the Discussion Paper, the Government's GFS has set an expectation that all listed companies and large asset owners will disclose in line with the TCFD's recommendations by 2022.

3.20 In light of this feedback, we will clarify how existing rules should be interpreted in this area and will consult on proposals to introduce further rules to promote better market outcomes. We will take a proportionate approach to any extension of requirements relating to issuers' disclosures, as we appreciate that the impact of climate-related matters will differ across businesses, as will the time it may take for such impact to materialise. More detail about our next steps is set out in Section 4.

2. Climate-related disclosures by regulated firms

3.21 Also within the context of the TCFD framework, we sought views on climate-related disclosures by regulated firms, including banks, insurers, asset owners and asset managers.

3.22 In particular, we invited views on introducing a new requirement for financial services firms to report publicly on how they manage the impact of climate change on their customers and operations. We asked whether such disclosures would be valuable (Q4), what information should be included in such disclosures (Q5), and which regulated firms should be required to report (Q6). We also asked for general views on the appropriate scope of the FCA's interventions in relation to climate-related disclosures (Q8).

3.23 The focus of these questions was on entity-level climate-related disclosures, as opposed to product and service disclosures.

Feedback received

3.24 Overall, respondents were supportive of introducing some type of climate risk disclosure requirement. Only two of the 60 respondents to this question saw no need for such reporting.

3.25 Most respondents, including financial services firms, trade associations and interest groups, suggested that the FCA adopt or base such reporting on the TCFD's recommendations. They noted that many firms had already adopted this framework in some form.

3.26 In terms of the key elements to be included in firms' climate change disclosures, the following were frequently mentioned across responses: carbon emissions, physical risks to firms' operations, risks from supply chains, investment risks and general transition risks. A number of respondents also supported the inclusion of scenario analysis and long-run projections.

3.27 Many respondents considered that information should also be included on firms' actions to mitigate climate risks and their internal climate risk management processes. A number of respondents referenced the TCFD's supplemental guidance for banks, insurers, asset owners and asset managers.

3.28 Views differed on how broadly a disclosure requirement should apply across the range of regulated firms, with proportionality again a frequent concern. While roughly half of respondents supported requirements for all regulated firms, others suggested taking an approach that was more proportionate to a firm's size and risk profile.

3.29 For asset owners and asset managers, it was observed that reporting on the climate risk profile of investments, and on how climate risks were considered in investment decisions, would provide important transparency to clients and beneficiaries. It was also noted that these reports would need to be informed by issuers' disclosures. Some respondents noted the link to firms' reporting on stewardship and shareholder engagement and new rules for pension schemes on integrating ESG considerations.

3.30 As a general observation on disclosures, there was some concern about possible duplication of requirements, particularly noting the various initiatives currently in progress at the EU level.

Our response

3.31 We acknowledge the strong support for introducing disclosure requirements for regulated firms, aligned with or based on the TCFD's recommendations. We agree that there is a case to consider developing rules in this area, taking account of the different impacts from climate-related issues that different firms face.

3.32 We see improved issuer disclosures – as discussed above and in Section 4 – as a foundation for potential further measures to improve climate-related disclosures by regulated firms. Effective disclosures by issuers will support regulated firms in appropriately considering climate-related risks and help them in making informed decisions. They will also help to ensure that regulated firms have the information they need to support their own disclosure obligations.

3.33 Our future actions in this space will also need to be developed with reference to several wider initiatives that we are involved in to improve disclosures on climate change and other sustainability factors by regulated firms. This includes the Government-led cross-regulator taskforce on disclosures, the disclosures regulations being developed at the EU level and the CFRF working group focusing on climate-related disclosures. We are keen to ensure regulatory consistency across the various standards to avoid duplication or divergence.

3. Common metrics and standards on sustainability

3.34 As we noted in Section 2, the EU is progressing a Sustainable Finance Action Plan (SFAP), to encourage investments into sustainable activities. One part of this plan is to create a common language on sustainable activities that everyone in the financial system can use. A new EU regulation, published in draft form in May 2018, proposes to introduce criteria to establish, in the first instance, what can be considered an environmentally sustainable activity. A Technical Expert Group published a draft of the taxonomy in June 2019. Note that this draft of the taxonomy was not available before our deadline for responses.

3.35 In our Discussion Paper, we asked respondents their views on the role common standards and metrics might play in the market for green finance, and what form such standards and metrics should take (Q6).

Feedback received

3.36 Most respondents (more than 40 of the 50 respondents to this question) supported the need for internationally agreed standards and metrics for defining the sustainability characteristics of financial products. In this context, respondents also generally supported the aims of the EU's work on the taxonomy. Some considered this a potential foundation for future global standards. A few respondents noted and supported the work of the British Standards Institution (BSI) and other initiatives in developing green standards to sit alongside the EU taxonomy.

3.37 There were, however, some reservations. For instance, some respondents were concerned about the initially relatively narrow scope of the EU taxonomy and its focus on so-called 'dark green' activities. Some were concerned that this could limit sustainable investments at the exclusion of other potential positive impact projects.

3.38 Some respondents also challenged the emerging definitions, questioning the prescriptiveness of the emerging taxonomy and the potential inflexibility of a legislative approach. They feared that this could have the unintended consequence of stifling innovation.

3.39 Building on this theme, a large minority of respondents, including a range of financial firms, trade bodies and interest groups, said it was important that the taxonomy have in-built flexibility to accommodate innovation. Others emphasised, however, that, while flexible, the taxonomy should still be sufficiently robust to meet its aim to support both firms' investment processes and consumers' evaluation of sustainable products.

Our response

3.40 We recognise the potential benefits of common definitions, standards and metrics for green and other sustainable products and activities. Common approaches can help consumers and investors assess whether products align with their own sustainability preferences and validate firms' claims about their products. A proliferation in standards can make comparisons more difficult because of the different methodologies used to assess sustainability.

3.41 But we appreciate there can be legitimate causes for differences in approaches and assessments of the sustainability of products (e.g. sectoral or regional differences). As common approaches develop it is important that they allow sufficient flexibility to reflect this and, crucially, allow space for innovation.

3.42 We will therefore continue to engage with industry initiatives to develop definitions and standards, as well as the EU's work, both on the taxonomy and on other key elements of the SFAP – notably, the disclosure and benchmark regulations.

3.43 The standards and requirements being developed at the EU level are expected to underpin approaches taken across the UK financial sector.

3.44 As noted in Section 2, the Government has committed to at least matching the ambition of the objectives of the SFAP in relation to green finance. In light of the UK's withdrawal from the EU, we will need to continue to consider, with the Government and other regulators, what actions might be necessary to do this and support the development of sustainable finance standards and definitions.

4. Stakeholders' concerns, commercial priorities and barriers to growth

3.45 Sound policy-making depends on close engagement with, and high-quality and timely information from, the breadth of stakeholders, both nationally and internationally. Such engagement ensures that we develop a clear understanding of where issues and concerns may arise that impact the pursuit of our objective to ensure that relevant markets function well.

3.46 Our Discussion Paper provided an opportunity to gather market intelligence from industry participants and other stakeholders on the evolution of the market for green finance.

3.47 In the climate change and green finance context, we sought feedback on industry participants' biggest concerns and commercial priorities (Q11). We also welcomed input on stakeholders' perceptions of the key barriers to the growth of the green finance sector (Q12).

Feedback received

3.48 The concerns raised by respondents were many and varied. Across the range of stakeholders, they included the following: a perceived lack of urgency at Government level, manifesting in few incentives to accelerate the development of green products; vested interests across the economy that served to preserve the status quo; and potential negative impacts for firms and consumers arising from litigation risks, 'stranded assets' (e.g. assets that become worthless or uninsurable due to their exposure to physical climate change risks), or the market-led obsolescence of certain products and services during the transition.

3.49 One barrier to the growth of the green finance sector cited by around half of the 45 respondents to this question was the persistence of a 'short-term results culture' in finance, even where assets are invested for the long-term. Some respondents noted a general lack of engagement, understanding and awareness of climate change risks, both on the demand and the supply sides of the market. They noted that there remains a general perception that investing in sustainable products will sacrifice returns. This was seen to be limiting the uptake of green products.

3.50 A number of respondents again emphasised the importance of good data and disclosures on climate change. Better information would raise awareness and understanding of climate-related risks, forcing closer attention on the issue and increasing the sense of urgency. With greater awareness, businesses and financial services firms might take a longer-term perspective in their activities. And more reliable data would improve their business, risk and investment decision-making.

3.51 The absence of common standards, and insufficient and poor-quality data were also cited as barriers to effective product design and delivery. Respondents stressed that without comparable disclosures and an agreed set of standards, metrics and criteria for defining sustainable activities, firms cannot design genuinely green or other sustainable products.

3.52 Respondents argued that consumers, in turn, are unable to determine what qualifies as a green or sustainable product and hence may not trust the information they receive. The risk of greenwashing was seen as a material concern. Respondents acknowledged that the various ongoing regulatory and industry initiatives on disclosures and standards, including the work on the EU taxonomy, could help to lower this barrier.

3.53 Several respondents felt that policymakers and regulators could be more assertive and proactive in this space, and introduce more supportive policies to actively incentivise the emergence of innovative – and 'bankable' – green finance products.

Our response

3.54 We welcome the feedback from industry on barriers to growth and are committed to continuing to engage actively with industry to ensure that we remain sighted on industry's concerns and priorities around climate change, including through supporting the CFRF industry forum with the PRA (see following feedback section below).

3.55 Where issues and impediments to effective market functioning are observed, we will consider how to address these within the scope of our responsibilities, working with other regulators and Government.

3.56 We note stakeholders' concerns around short-termism. We agree that improved transparency will help, but also consider that more can be done to set expectations of financial services firms and remove barriers to integrating sustainability factors more broadly into business, risk and investment decisions.

3.57 Several existing FCA initiatives aim to promote a longer-term perspective in institutional investment decisions and product design, where appropriate, including to take account of climate change and other sustainability risks. For instance, work is continuing on investor stewardship, which builds on new rules on shareholder engagement for life insurers and asset managers arising from our implementation of the revised EU Shareholder Rights Directive (SRD II).

3.58 We also agree that the FCA has a role to play in fostering innovation in this space, ensuring there is effective competition, and that markets are working well. In this context, we launched a Green FinTech Challenge in October 2018, and are committed to supporting other innovative initiatives that may arise from the GFS, within the scope of our remit.

3.59 More detail about our next steps in each of these areas is set out in Section 4.

5. Industry engagement

3.60 We are keen to work collaboratively with industry to meet the challenges related to climate change, acknowledging that a number of initiatives are already under way at the UK and international level.

3.61 We summarise below the feedback received to our question on how the FCA can most effectively work with industry to meet investor demand for green investment opportunities and encourage those raising capital regarding climate change and green finance (Q7).

3.62 In our Discussion Paper, we announced our intention to establish, with the PRA, a climate change-focussed industry forum, the CFRF, and sought views on the role that this forum could play (Q10).

Feedback received

3.63 Responses to these questions welcomed the FCA's increased focus in this area. Around a third of respondents emphasised the importance of the FCA's collaborating with industry participants and other stakeholders to develop its approach. They noted the value of leveraging existing initiatives in this space and coordinating actions with other Government agencies, regulatory bodies and international organisations.

3.64 A number of respondents saw active industry engagement as an important way for the FCA to communicate its expectations on climate-related matters and to keep abreast of concerns and challenges in this space. They also saw engagement as an opportunity for the FCA to build momentum in green initiatives. Some industry participants would like to work with us to better define 'green' and accelerate work on climate-related financial disclosures.

3.65 Some respondents saw a case for the FCA to set expectations and raise awareness by publishing research on climate-related issues.

3.66 There was widespread support for the CFRF, as a means of bringing together representatives across the financial sector to share best practice and develop practical tools and approaches to address climate-related financial risks. However, there were some concerns about potential duplication with work already being done in other groups. Some respondents expressed the need for greater clarity on the Forum's purpose to manage this risk.

Our response

3.67 It is important that there is a coordinated approach to supporting the UK financial services sector in its response to the challenge of climate change, and helping it play its part as the UK transitions to a net zero emissions economy. As such, we welcome the Government's GFS and the initiatives it announced to support regulatory coordination.

3.68 We welcome the support for the CFRF, and are keen to continue to engage actively with industry on challenges in this sphere, including through the Forum. In positioning this work, we have consulted with members to ensure that it makes a valuable contribution in an important area and does not duplicate existing initiatives.

3.69 The Forum has met twice in 2019 and is progressing outputs through its working groups on disclosures, innovation, risk management and scenario analysis. More information about next steps for the CFRF is provided in section 4.

3.70 Our actions on climate change will also continue to be developed in the context of EU and wider international initiatives and standards in this area. We will continue to engage actively with these, with a view to sharing insights and promoting regulatory consistency.

4 Our actions and next steps

4.1 We have reflected on the feedback we received as well as wider policy developments, and assessed where we can have the greatest impact in addressing harms. We have identified priority near-term actions and several other areas for further consideration.

4.2 In this section, we present the key actions that we are taking, individually and together with key stakeholders, which will contribute towards achieving the outcomes we described in section 2. These are summarised in Figure 2.

Figure 2: Our key actions

Our key actions

Outcomes we want to enable

Issuers provide markets with readily available, reliable and consistent information on their exposure to material climate change risks and opportunities

Issuers' climate change disclosures

- Publish a Consultation Paper on new rules on Taskforce for Climate-related Financial Disclosures-aligned climate change disclosures
- Clarify that existing rules require disclosure of all financially material climate related risks

Regulated financial services firms integrate consideration of material climate change risks and opportunities into their business, risk and investment decisions

Firms' integration of climate change risk

- Publish a Feedback Statement on Stewardship, which will signal our continued supervisory and policy interest in this topic and set out next steps
- Publish a Policy Statement on Independent Governance Committees' consideration of ESG factors
- Finalise measures to facilitate investment in patient capital

Innovation

- Green FinTech Challenge

Consumers have access to green finance products and services, which meet their needs and preferences, and receive appropriate information and advice to support their investment decisions

Expectations around green financial products and services

- Challenge firms where we see potential greenwashing, clarify our expectations and take appropriate action to prevent consumers being misled
- Carry out further policy analysis on greenwashing and take action (e.g. guidance) to address concerns as appropriate
- Engage and consider the proposals of the European Commission's Sustainable Finance Action Plan relevant to products and services, particularly around product disclosures.

Joint work with Government, other regulators and industry

- Supporting the Climate Financial Risk Forum, which includes working groups on:
  - Disclosures
  - Innovation
  - Risk Management
  - Scenario Analysis
- Contributing to the Fair and Effective Markets Review working group
- Work to support the Green Finance Strategy, including:
  - Government-led cross-regulator taskforce on disclosures
- Wider engagement in the development of the European Commission's Sustainable Finance Action Plan, including the work on:
  - Benchmarks
  - Disclosures
  - Taxonomy

4.3 In some areas, we are continuing and building on existing work (such as actions on firms' integration of climate change risk and innovation) and in others we are launching new work (including on issuers' climate change disclosures and expectations around green financial products and services) to address the concerns that have been identified.

4.4 As climate change and green finance are complex and evolving topics, we will regularly review our approach to ensure that we are focusing on the right issues at the right time.

4.5 We will consider our future priorities as part of our business planning. We will also provide an update on our work and future priorities on climate change and green finance as part of the adaptation report we will submit to the Department for Environment, Food and Rural Affairs (DEFRA) ahead of the deadline in 2021.

4.6 More detail on the specific actions we are taking, individually and jointly, is set out below as well as a high-level timeline of actions.

Issuers provide markets with readily available, reliable and consistent information on their exposure to climate change risks and opportunities

Issuers' climate change disclosures

4.7 The feedback to our Discussion Paper lent strong support to more guidance on issuer disclosures and the introduction of additional rules to encourage consistent, proportionate and transparent disclosure of climate-related risks by issuers. If the information that issuers provide is useful for decision-making, it can help to address risks to market integrity, consumer protection and competition.

4.8 Providing clarity on what is expected will also assist issuers, including by reducing the cost of meeting ad hoc information requests from investors. Clearer regulatory expectations can also provide further momentum for the growth of service providers operating in this space, fostering innovation, furthering competition and helping to ensure that the UK remains an attractive destination for high-quality listings.

4.9 In light of these considerations, we will consult in early 2020 on proposals to introduce new rules requiring certain listed issuers to make climate-related disclosures aligned with the TCFD's recommendations. We will take a proportionate approach in developing our proposals. As such, we will propose that these rules be introduced, at least initially, on a 'comply or explain' basis. This recognises the challenges that such disclosures may pose for some issuers.

4.10 We will also clarify our view that existing disclosure obligations already capture the reporting of the implications of climate change for a business where these are financially material to a company's prospects.

4.11 Our proposals build on the support for the TCFD's recommendations we received in feedback to our Discussion Paper. They also acknowledge the finding in a recent progress report by the TCFD in June 2019, which suggests that too few companies are disclosing climate-related financial information which is useful for decision-making. Our proposals align with the Government's expectation in the GFS that all listed issuers and large asset owners will be disclosing in line with the TCFD's recommendations by 2022.

Issuers' disclosures on other sustainability factors

4.12 Looking ahead, we will continue to consider whether issuer disclosures on other sustainability factors, beyond climate change, are adequate to support investors' business, risk and investment decisions. As frameworks emerge for such disclosures, there may be a need to take further actions to promote consistency and comparability.

Regulated firms' climate change disclosures

4.13 Consistent with the feedback received, we will consider how best to enhance climate-related disclosures by regulated financial services firms that fall outside the scope of our proposed new rules for certain listed issuers.

4.14 We consider that improvements to issuers' disclosures, as discussed above, are an important foundation for further measures to improve climate-related disclosures by regulated firms. The approach we take will need to be coordinated with other regulators in the Government-led cross-regulator taskforce, launched under the GFS to examine the most effective way to implement TCFD-aligned disclosures.

4.15 We will also consider this in the context of existing reporting requirements, ongoing EU initiatives and the outcome of work on disclosures by the CFRF.

Climate change and ESG data services

4.16 The effectiveness of the interaction between issuers and financial markets depends not only on the scope and quality of information and disclosures, but also how information and data on issuers are disseminated and used.

4.17 Stakeholders have highlighted that specialist data service providers play an important role in collating, assessing and providing ESG metrics, ratings and indices but raised concerns around the transparency of the methodologies used by some of these providers to produce their metrics.

4.18 This will be another future area of focus. As a first step we are looking at the nature and quality of the services that data providers offer, how investors use these and how much they rely on them. As far as we have a role to play in this area, we will consider our next steps based on the outcome of this factfinding work.

Regulated financial services firms integrate consideration of material climate change risks and opportunities into the design and delivery of their products and services

4.19 To enable the market and interactions with issuers and consumers to work well, we are keen to ensure that regulated financial services integrate consideration of long-term climate change risks and opportunities into the business, investment and risk decisions they make, where such long-term considerations are appropriate. If firms do this effectively it will help them – and their clients – to support the transition to net zero emissions economy and promote greater trust in the market. This is strongly aligned with our operational objective to protect and enhance the integrity of the UK financial system.

4.20 We have several initiatives aimed at promoting a longer-term perspective in firms' investment decisions, including in their consideration of climate change risks:

- framework for effective stewardship
- oversight of pension providers' integration of climate change and other ESG risks
- patient capital
- culture, governance and leadership

4.21 Work is also ongoing to support innovation in green finance, which could enable the market to develop further and faster in the public interest.

Framework for effective stewardship

4.22 Stewardship by asset owners and asset managers involves making informed decisions about where to invest, and proactive oversight of assets once invested. This can be an important means of injecting a long-term perspective in investment activity, where appropriate, to create sustainable long-term value for clients and beneficiaries.

4.23 We published a Discussion Paper earlier in the year, jointly with the FRC, calling for more strategic input on how best to encourage the institutional investment community to engage more actively in stewardship of the assets in which they invest. Our work has examined what effective stewardship should look like, what the minimum expectations should be for financial services firms that invest for clients and beneficiaries, the standards the UK should aspire to and how these could be achieved.

4.24 This work builds on regulatory measures that took effect in June this year, aligned with SRD II. These measures set requirements for asset managers and life insurers to disclose their shareholder engagement policies and investment strategies, including in relation to climate change and other ESG factors.

4.25 In our Discussion Paper, we sought input on the interaction between these new regulatory rules and proposed revisions to the FRC's Stewardship Code. We are currently considering responses and will publish a feedback statement in the coming weeks. Our feedback statement will set out further work with the aim of helping to address some of the most significant barriers to effective stewardship, and creating a supportive environment in which progress towards effective stewardship across the industry can accelerate. We will also continue to engage with firms on stewardship as part of our supervisory work.

Oversight of pension providers' integration of climate change and other ESG risks

4.26 We are taking some additional steps on integration of climate change and other ESG risks relating to workplace personal pension schemes.

4.27 In particular, we recently consulted on proposed rule changes to require Independent Governance Committees (IGCs) to consider and report on firms' ESG and stewardship policies. IGCs provide independent oversight of workplace personal pension schemes.

4.28 Our proposed changes will help protect consumers from investments that may be unsuitable because of insufficient consideration of ESG risks, including climate change. They will provide an important layer of governance to oversee how consumers' concerns are taken into account, and encourage good stewardship of investments. We will publish our Policy Statement and final rules in late 2019.

Patient capital

4.29 Beyond our work to improve firms' integration of climate change risk, we have also sought to remove unnecessary barriers to long-term investment more broadly.

4.30 At the end of 2018, we launched a Consultation Paper proposing changes to permitted links rules to allow retail investors greater access, with an appropriate degree of protection, to long-term patient capital investment opportunities in unit-linked funds.

4.31 Alongside this we also published an associated Discussion Paper setting out existing rules on how UK authorised funds can be used to invest in patient capital and asked for views on potential barriers. We are considering the responses we received and will publish consultation feedback and final rules on proposed changes to permitted links rules, and a separate feedback statement to our discussion paper, in due course.

4.32 The focus of our work on patient capital is not explicitly on climate change but more widely about considering whether access to a broader range of assets would be beneficial to investors. Nevertheless, there is strong relevance to climate change because enabling greater innovation and access to a wide range of investment opportunities is also likely to be important in funding the cost of the transition to a greener economy. For example, these investments can fund start-up companies developing innovative technologies, which may support the transition.

Culture, governance and leadership

4.33 We will further consider the role of firms' culture, governance and leadership in ensuring that firms appropriately take action to manage the risks of climate change and support the transition more widely. We are keen to ensure our regulatory framework appropriately promotes transparency and accountability around climate-related issues.

4.34 Any steps we take in this area could be informed by a Supervisory Statement issued by the PRA in April 2019 with the aim of enhancing banks' and insurers' approaches to managing the financial risks from climate change. This statement sets expectations in the areas of governance, risk management, scenario analysis and disclosure.

4.35 Our proposed new rules for IGCs will also be an important addition to the governance of workplace personal pension schemes, by providing a vehicle for independent oversight of providers' stewardship arrangements.

Innovation

4.36 Positive innovation will have a key role in enabling financial services to overcome barriers in supporting the transition to a net zero emissions economy and meet changing consumer needs. It is a powerful driver of effective competition and can generate better outcomes for consumers by delivering products and services that are better suited to their needs, more accessible or better value.

4.37 Also, as noted in the Government's GFS, innovation has an important role in enabling financial services firms to take advantage of potential opportunities that transitioning to a greener economy can bring. If firms are able to capture these opportunities, it could position the UK financial services sector at the forefront of green financial innovation.

4.38 To actively encourage creative, market-led solutions, we launched our first FinTech Challenge in October 2018 focussing on green finance. We had not seen many green finance firms within our Innovate function in the past, so the Green Fintech Challenge has allowed us to shine a light on the importance of innovation in enabling the financial services market to work well in responding to the challenges and opportunities of climate change. Nine firms were accepted as part of the first Green Cohort announced in April 2019.

4.39 These start-ups, incumbents and technology providers now have access to support across the range of Innovate's services, such as the Regulatory Sandbox, Direct Support and the Advice Unit. Many of the firms that we are supporting as part of the Green FinTech Challenge are seeking to provide solutions to some of the issues highlighted above. For example, the successful applicants include investing platforms aimed at helping institutional investors better factor in ESG considerations to investment decisions and consumer focused innovations, such as a tokenised rewards platform which incentivises consumers to adopt greener lifestyle changes.

4.40 In addition to supporting innovative firms and approaches, we are also developing our understanding of the issues that firms face, such as common barriers to innovation, and considering where we can help. We will use these insights to inform further work we do in this space to encourage positive innovation in the interests of consumers.

Consumers have access to genuinely green finance products and services, which meet their needs and preferences, and receive appropriate information and advice to support their investment decisions

4.41 Feedback from stakeholders highlighted the potential benefits of common benchmarks, standards and metrics for sustainable products and activities. This can help consumers to understand the products and services they are offered and assess whether they are genuinely green. This can help them to make more informed choices.

4.42 As we have noted, if consumers find it difficult to validate firms' claims about the products they are offered, there will be a risk of greenwashing. This could undermine confidence in the green finance sector, leading to unsatisfied demand, reduced participation and competition and insufficient investment in the transition to net zero emissions.

Expectations around green financial products and services

4.43 We have carried out some initial diagnostic work on firms' sustainable product offerings, to gauge whether there is evidence of potential greenwashing. Early indications from this work are that the 'sustainable' label is applied to a very wide range of products. On the face of it, some of these do not appear to have materially different exposures to products that do not have such a label.

4.44 However, we acknowledge that assessing this is complex. There can be legitimate causes for differences in assessments of sustainability of products (e.g. sectoral or regional differences) and it can be difficult to determine the net impact of a financial product in supporting sustainability goals. Ultimately, our focus is on ensuring that investors and consumers are not misled or mis-sold products that fail to meet their needs.

4.45 We are keen therefore, to clarify our expectations of firms in this regard. Our Policy Statement (PS19/4), issued in February 2019, included non-handbook guidance clarifying that a fund should set out clearly in its Key Information Document if it pursues environmental, social or other non-financial objectives, and how it does so. This should be done in a way that is fair, clear and not misleading. Firms should also be clear how they will measure whether those objectives are being met, and should provide ongoing information to investors.

4.46 Going forward, this will remain an active area of focus in our supervisory and policy work. As part of this, we will carry out further policy analysis and consider whether additional actions, guidance or rules are necessary to promote good governance of the design and delivery of sustainable products and services within regulated firms. We will challenge firms where we see potential greenwashing and take appropriate action to prevent consumers being misled.

4.47 As new policy measures are finalised and implemented, we will also consider the need for follow-up work and will communicate to firms as appropriate regarding priorities and areas of focus.

Sustainable Finance Action Plan

4.48 Better product and service disclosures should also help consumers validate firms' claims about the sustainability characteristics of their products and services and help to address risks of mis-selling and misleading communications. This is a key element of the SFAP, which we are engaging with and are closely monitoring.

4.49 The proposed EU Sustainable Finance Disclosure Regulation achieved political agreement in March 2019 and is provisionally expected to apply from early 2021. It comprises a number of elements. These include defining sustainability risks and sustainable investments, and requiring firms both to make certain product disclosures and to disclose how they integrate sustainability considerations into their investment decisions. Good issuer disclosures will be a prerequisite for this, as discussed above.

4.50 We will need to continue to consider how this and other EU initiatives will impact the UK market, including how they may affect product design and innovation. In the light of the Government's commitment to at least match the ambition of the objectives of the SFAP in relation to green finance, we will work with Government and other regulators to consider what actions need to be taken to do this.

4.51 As part of this, we will continue to monitor work on the EU's taxonomy for sustainable activities. How industry standards develop within the framework of the EU taxonomy and other new rules will influence their effectiveness. In this regard, we will monitor closely industry initiatives such as those of the BSI and the Investment Association.

Investment advice

4.52 Investment advice is also an important area where climate change and other sustainability risks should be appropriately considered. In assessing the suitability of investment decisions for clients, advisors are required to gather sufficient information so that they can make recommendations to or decisions on behalf of clients that meet their investment objectives. This can include the understanding of clients' sustainability preferences. However, it is not mandatory for ESG issues to be considered under the current suitability regime.

4.53 We noted work underway at the EU level, proposing amendments to delegated acts under key pieces of EU financial regulation. These include proposals related to investment advice. The proposals would mandate insurance companies, pension fund providers and investment advisors to include questions about their clients' ESG preferences in questionnaires and suitability assessments, to act in accordance with those preferences and to disclose to their clients how those preferences will be fulfilled. We are continuing to monitor and engage with this work, along with other key elements of the SFAP as noted above.

Joint work with Government, other regulators and industry

4.54 We recognise the importance of working collaboratively with Government, other regulators and industry to support the achievement of the outcomes we want to enable. There are a number of initiatives we are contributing to that will support the actions we are already taking, as noted above.

4.55 We are working together with the PRA and industry as part of the CFRF established in early 2019. The CFRF has set up four working groups – disclosures, innovation, risk management and scenario analysis – to consider key issues and produce practical tools, guidance and recommendations that are useful for different types and sizes of firms. The CFRF is aiming to publish initial outputs from the working groups in Spring 2020 and, ahead of publication, will engage more widely with stakeholders to gather views and input.

4.56 The scope of the Forum is broad and will touch on a number of areas of interest for our wider actions, as noted above, and so we are keen to use insights from this work to inform our forward-looking approach.

4.57 We will continue to contribute to the Fair and Effective Markets Review (FEMR), a working group, consisting of the Bank of England, HMT and the FCA. FEMR is seeking to understand the potential or actual barriers to the growth and effectiveness of green finance, and measuring the link between issuance and impact of green products. This work is intended to feed into the CFRF as well as wider developments on the Government's GFS.

4.58 We will also continue to support the GFS more widely within the scope of our remit, including contributing to relevant initiatives such as the Government-led cross-regulator taskforce on disclosures mentioned above.

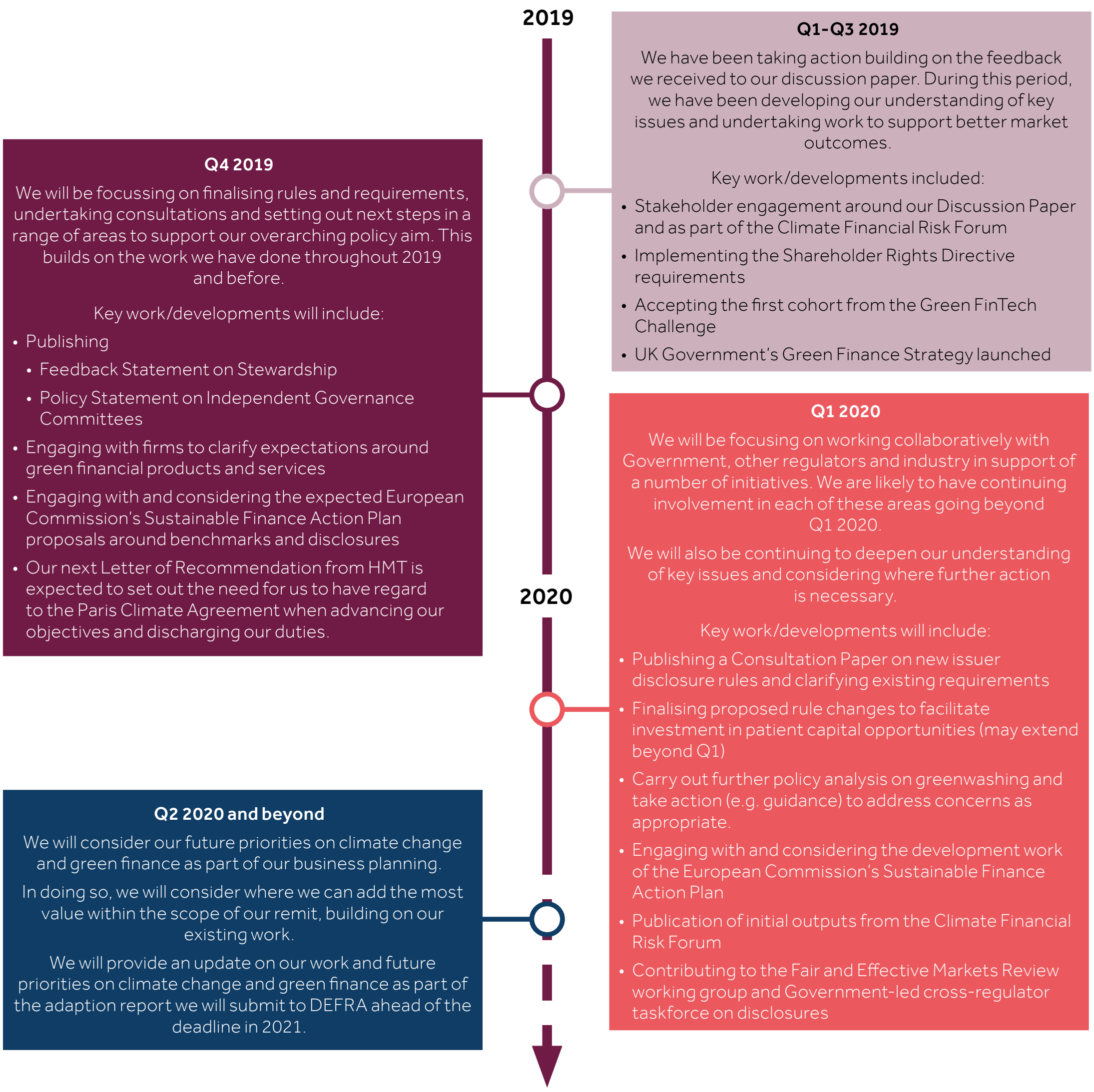
4.59 As we have observed throughout this Feedback Statement, climate-related financial risks and regulatory issues remain a key priority for the EU and for international institutions. Through initiatives such as the International Organization of Securities

Commissions' (IOSCO) Sustainable Finance Network, the FCA will continue to contribute to international policy debates in line with our remit and objectives. We will also draw upon the experiences of our international counterparts when developing our policy and supervisory approach.

Timeline of actions

4.60 The below timeline sets out key dates for the actions set out above as currently intended.

Figure 3: Timeline of actions



4.61 We will continue to review our approach and actions to inform where we may undertake further work in line with our objectives and the outcomes we want to achieve.

Annex 1
DP18/8 Questions

Q1: **What, if any, difficulties do issuers face in determining materiality? We are also interested in exploring how investors consider materiality in this context.**

Q2: **We are interested in understanding whether greater comparability of disclosures would help investors in their decision-making more generally. If so, what framework would be most useful?**

Q3: **Would exploring a 'comply or explain' approach, or other avenues to encourage more consistent disclosures, be an effective way of facilitating more effective markets?**

Q4: **Do you think that a requirement for firms to report on climate risks would be a valuable measure?**

Q5: **Do you have any suggestions for what information could be included in a climate risks report?**

Q6: **Do you have any views on which regulated firms should be required to compile a climate risks report?**

Q7: **How can authorities, including the FCA, most effectively work with industry to meet investor demand for green investment opportunities and encourage those raising capital and investing in it to pursue sustainable outcomes?**

Q8: **Do you agree with the extent of the FCA's proposed interventions on climate change-related financial disclosures? Is there a specific need for us to intervene further in the interests of market integrity or consumer interests?**

Q9: **In light of the EU work on taxonomy, what are your views on the form common standards and metrics for measuring and reporting against green financial services products should take?**

Q10: **How could regulators and industry best work together as part of the Climate Financial Risk Forum?**

Q11: **What are your biggest concerns and commercial priorities regarding climate change?**

Q12: **What are the biggest barriers to the growth of green financial services in the UK?**

Annex 2
List of non-confidential respondents

2° Investing Initiative

Aberdeen Standard Investments

Aldersgate Group

Alternative Investment Management Association (AIMA)

Association of British Insurers (ABI)

Association of Investment Companies (AIC)

B&CE

Bloomberg L.P.

BMO Global Asset Management

British Private Equity and Venture Capital Association (BVCA)

Brunel Pension Partnership Ltd

Carbon Tracker Initiative

Castlefield Investment Partners

Confederation of British Industry (CBI)

CFA UK

Chartered Banker Institute

Citigroup Global Markets Limited

City of London Law Society (CLLS) and the Law Society

ClientEarth

Climate Bonds Initiative

Climate Disclosure Standards Board (CDSB) and CDP

Deloitte

E3G

Ecology Building Society

Emma Dawnay

EY

Finance Innovation Lab

Global Reporting Initiative

Green Planet Consulting Ltd.

Hermes Investment Management

HSBC

Implementation Taskforce for Social Impact Investing

Institute and Faculty of Actuaries

International Capital Market Association (ICMA)

Invesco

Investment & Life Assurance Group (ILAG)

Joel Moreland

Keyte Ltd

Local Pensions Partnership Investments Ltd

London Stock Exchange Group (LSEG)

Morningstar

Nationwide Building Society

Personal Investment Management & Financial Advice Association (PIMFA)

Plenitude.io Ltd

Positive Money

Rabobank

Rt. Hon. Sir Edward Davey MP

Sarasin & Partners LLP and the Local Authority Pension Fund Forum

Schroders

ShareAction

SRI Services

Standard Chartered Bank

State Street

Storebrand Asset Management and SKAGEN Funds

Sustainability Accounting Standards Board (SASB)

The Committee on Climate Change (CCC)

The Green Finance Initiative (GFI)

The Investment Association (IA)

the Quoted Companies Alliance (QCA)

The Royal Bank of Scotland Group (RBS)

The Transparency Task Force (TTF)

Triodos Bank

UK Finance

UKSIF

United Nations Principles of Responsible Investing (UN PRI)

USS Investment Management Ltd

Vigeo Eiris

WWF-UK

Annex 3
Abbreviations used in this paper

BSI	British Standards Institution
CFRF	Climate Financial Risk Forum
DEFRA	Department for Environment, Food and Rural Affairs
ESG	Environmental, social and governance
EU	European Union
FCA	Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FRC	Financial Reporting Council
FSB	Financial Stability Board
GFS	Green Finance Strategy
HMT	Her Majesty's Treasury
IDD	Insurance Distribution Directive
IGC	Independent Governance Committee
IOSCO	International Organization of Securities Commissions
MiFID	Markets in Financial Instruments Directive
PRA	Prudential Regulation Authority
SFAP	Sustainable Finance Action Plan
SRD II	Shareholder Rights Directive II
TCFD	Taskforce for Climate-related Financial Disclosures
TPR	The Pensions Regulator
UK	United Kingdom

We have developed this Feedback Statement in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Pub ref: 005971

FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk