



ESG Conference 2021

09:00 - 15:00 | Tuesday 16th November 2021



Opening keynote

Alexander Stafford MP

Chair, APPG ESG



ESG – The view from the regulator

TISA – ESG Conference, November 2021

Mark Manning – Technical Specialist, FCA

Overview

1. Strategy for positive change: our ESG priorities

- Target outcomes and core principles
- Key themes and actions

2. The Government's Roadmap to Sustainable Investing

- Potential tiered structure
- Possible approach to labelling/product classification

3. Next steps

A strategy for positive change: our ESG priorities

- Societal expectations on ESG are shifting and new instruments, products and services are coming to market
- The financial sector can be a force for good – but it needs a supportive regulatory foundation and adequate guard-rails
- The market needs:
 - high quality information
 - a well-functioning ecosystem
 - clear standards
- And consumers need to be able to rely on firms to deliver on their ESG promises
- **We have delivered on our initial 2019 priorities and have refreshed our strategy**

Outcomes, themes and actions

Business Plan 2021/22 Outcomes - ESG

High-quality climate- and sustainability-related disclosures

Trust and consumer protection from misleading marketing and disclosure

Governance arrangements for effective ESG

Active investor stewardship

Integrity in the market for ESG-labelled securities

Innovation in sustainable finance

Business Plan 2021/22 Outcomes – D&I

Diverse representation at all levels

Inclusive cultures

Products that reflect the diverse needs of consumers, offer fair value and are delivered in a fair and accessible way

Core principles

Global solutions to global problems

Walking the walk

Building an ESG capability beyond climate

Supporting positive market-led solutions

Influence beyond rulemaking

Maximising impact

Readying for a digital and data-led world

FCA work programme – key themes

Transparency

Enhance climate-related financial disclosures

Promote global standards for sustainability reporting

Improve transparency of performance on D&I.



Trust

Support fair and effective integration of ESG into financial market decision making, and trusted delivery of ESG-labelled securities, products and services



Tools

Influence internationally consistent outcomes in ESG

Deliver an ambitious Innovation programme

Work closely with industry

Collaborate with UK regulators and Government.



Transition

Intervene to underpin a market-led transition to a more sustainable future

Encourage effective investor stewardship.



Team

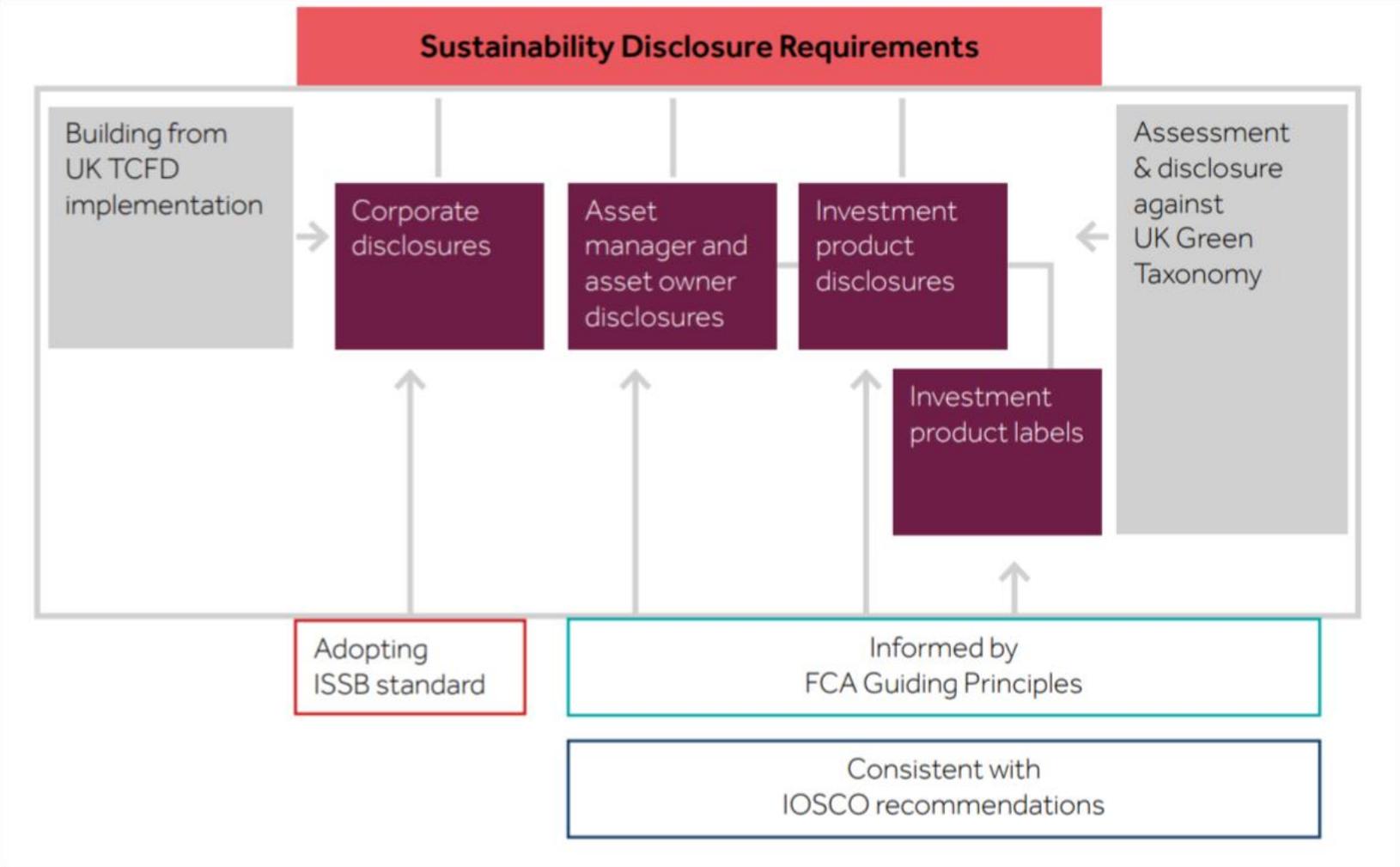
Embed ESG considerations and net zero 'have regard'

Communicate and 'role model'

Continue 'systems thinking' research on the ESG landscape

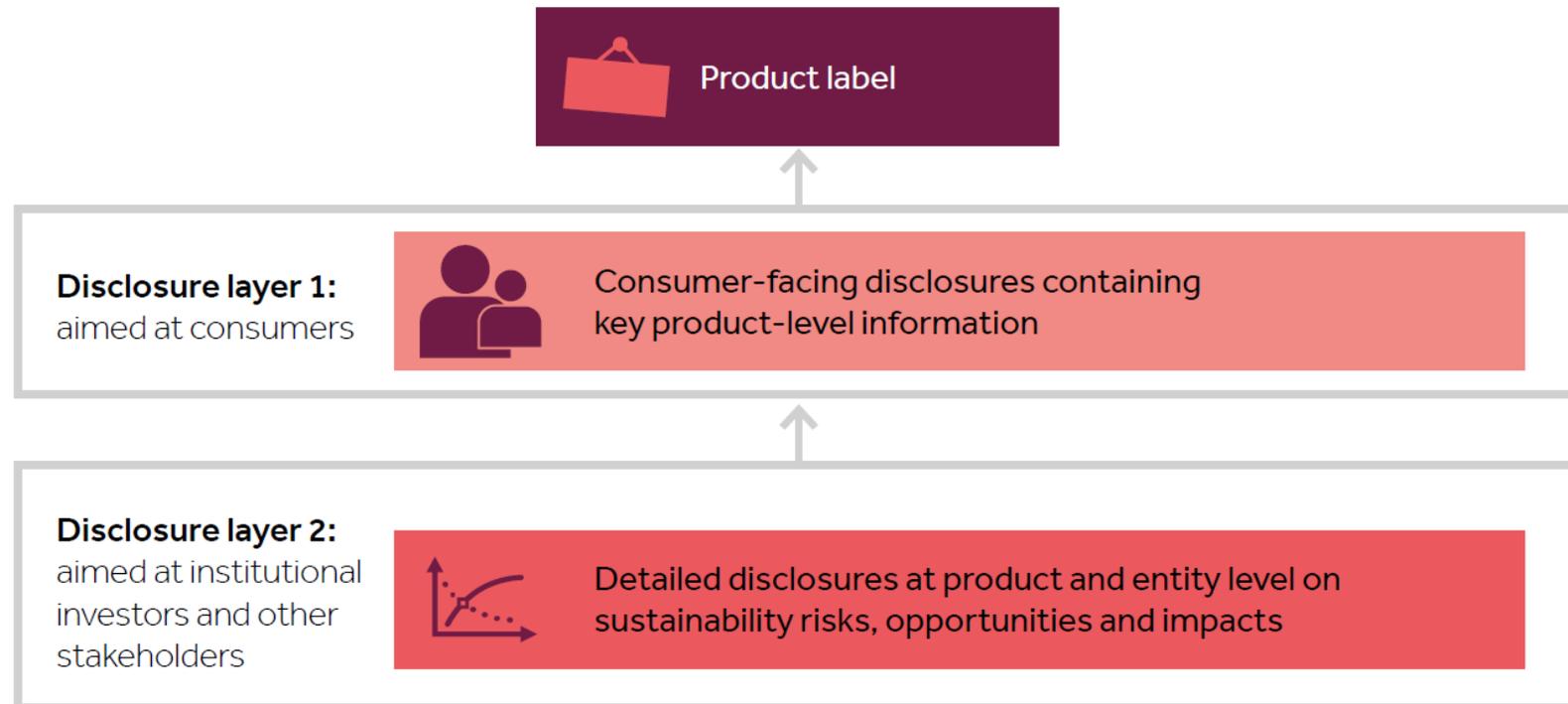


Roadmap to Sustainable Investing

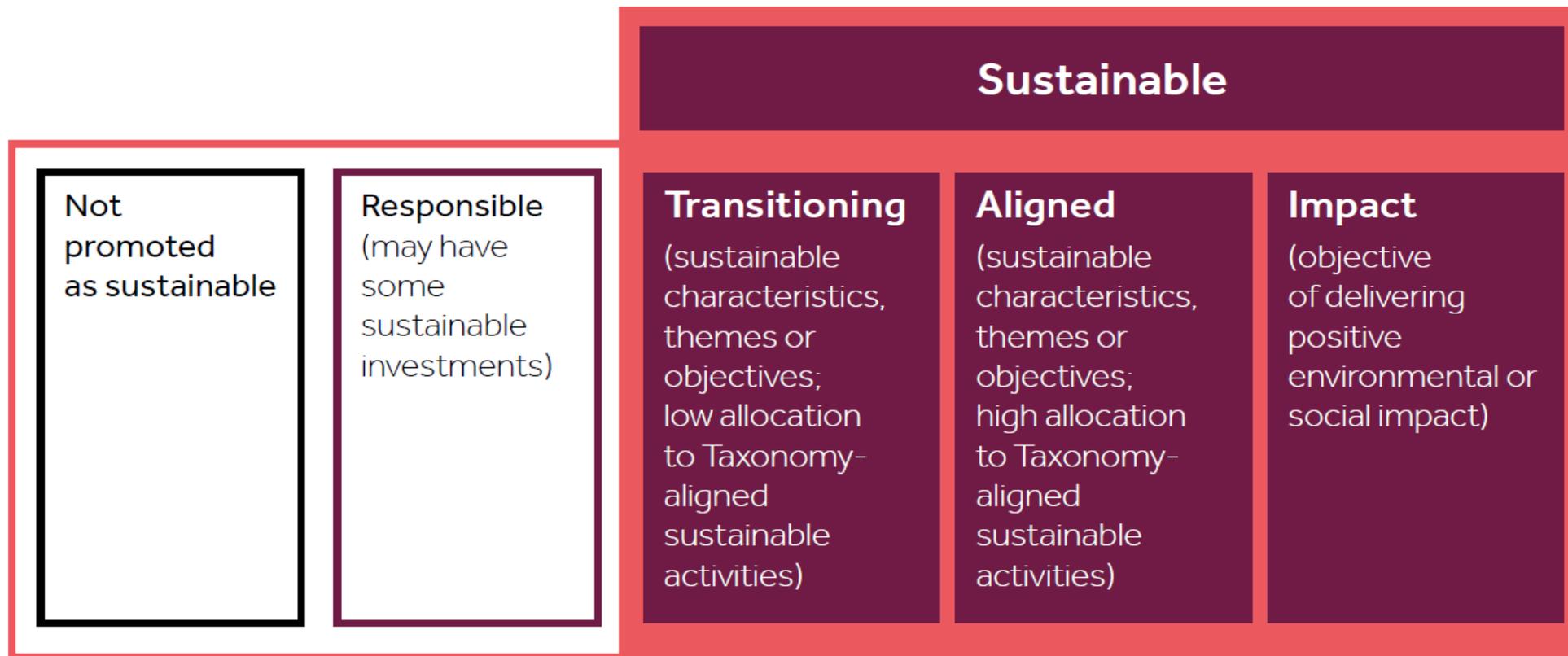


Potential tiered structure

Discussion Paper DP21/4 – published 3 November



Possible approach to labelling/product classification



Next steps

Progress near-term committed actions, including

- Finalising TCFD-aligned disclosure rules
- Stakeholder engagement on SDR/labels and policy proposals
- Transition Plans Taskforce
- Feedback Statement ESG and capital markets
- Continued collaboration with IOSCO/ISSB

-
- A vertical timeline with a central grey line and circular markers. The background is white, with a grey shaded area at the bottom for the Summer 2022 entry. The text is in a dark purple color.
- December 2021** ● **TCFD Policy Statements**
We will be publishing the final rules for TCFD-aligned disclosures for a wider scope of listed issuers and for asset managers, life insurers and FCA-regulated pension providers.
 - H1 2022** ● **Feedback Statement on ESG and Capital Markets**
We will publish our response to the feedback we received to our discussion on ESG and Capital Markets in CP21/18.
 - H1 2022** ● **Net zero stakeholder engagement**
We will engage with stakeholders on promoting well-designed, well-governed, credible and effective transition plans.
 - Spring 2022** ● **Feedback Statement and Consultation Paper on Sustainability Disclosure Regime and product labels**
Following the Discussion Paper in November, we will publish our response to the feedback we receive and consult on the resulting proposals.
 - Summer 2022** ● **FCA TCFD Report**
We will publish our first TCFD-aligned report considering the FCA as an operating entity and as a regulator, alongside our Annual Report.



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Legal Partner Presentation: ESG regulatory developments

16 November 2021

Imogen Garner – Partner, London

Daniel Nevzat – Regulatory Affairs Advisor, London



Speakers



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Today's agenda



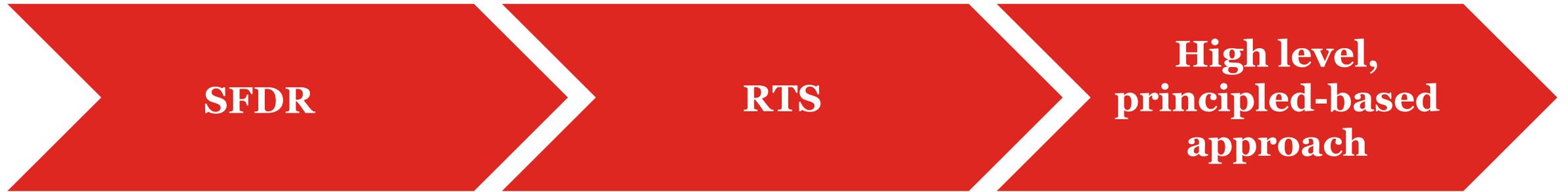
1 SFDR / TR update

2 FCA rules on climate-related financial disclosures for asset managers

3 FCA Guiding Principles on ESG fund design, delivery and disclosure

4 Sustainability Disclosure Requirements (SDR)

Sustainable Finance Disclosure Regulation (SFDR)

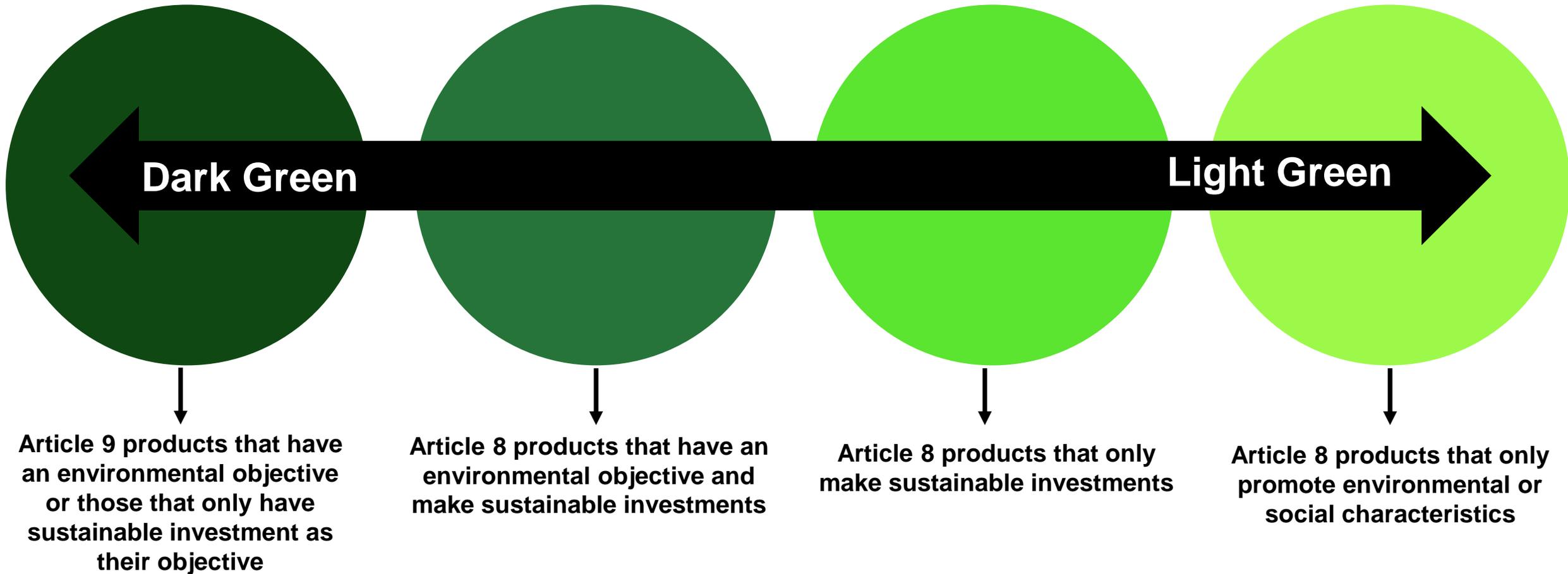


Sets out requirements for disclosure of sustainability risks and principal adverse impacts of investment decisions on sustainability factors

In February 2021, the European Supervisory Authorities (ESAs) published its Final report setting out regulatory technical standards (RTS) under the SFDR, followed by further Final Report in October 2021 on RTS regarding Taxonomy-related disclosures under SFDR.

Most provisions of the SFDR came into effect on 10 March 2021.
The application date of the Level 2 RTS was deferred, firstly until 01 January 2022 and then until 01 July 2022.

SFDR Articles 8 and 9 varying “Shades of Green”



TCFD-aligned disclosures for asset managers



Entity-level disclosures

Firms will be required to publish an annual TCFD entity report, containing the following:

- Consistent **disclosures**;
- Explanation of the firm's approach where it is **materially different** to the entity approach;
- How strategy has influenced **decision-making**, and the process by which it **delegates functions** offered by third parties;
- Climate-related **scenario analysis**;
- Any **targets** the firm has set to manage climate-related risks and opportunities.

Comparable product and portfolio disclosures

The product/portfolio disclosures would be required to contain the following:

- a consistent **baseline**;
- **KPIs** used to measure progress against climate-related targets;
- Disclosures in respect of **governance, strategy and risk management** where these differ at product/portfolio level from those made at entity level.

FCA guiding principles on ESG funds



When were the guiding principles published?

On 19 July 2021, the FCA published its guiding principles on design, delivery and disclosure of ESG and sustainable investment funds, appearing in a Dear Chair Letter.

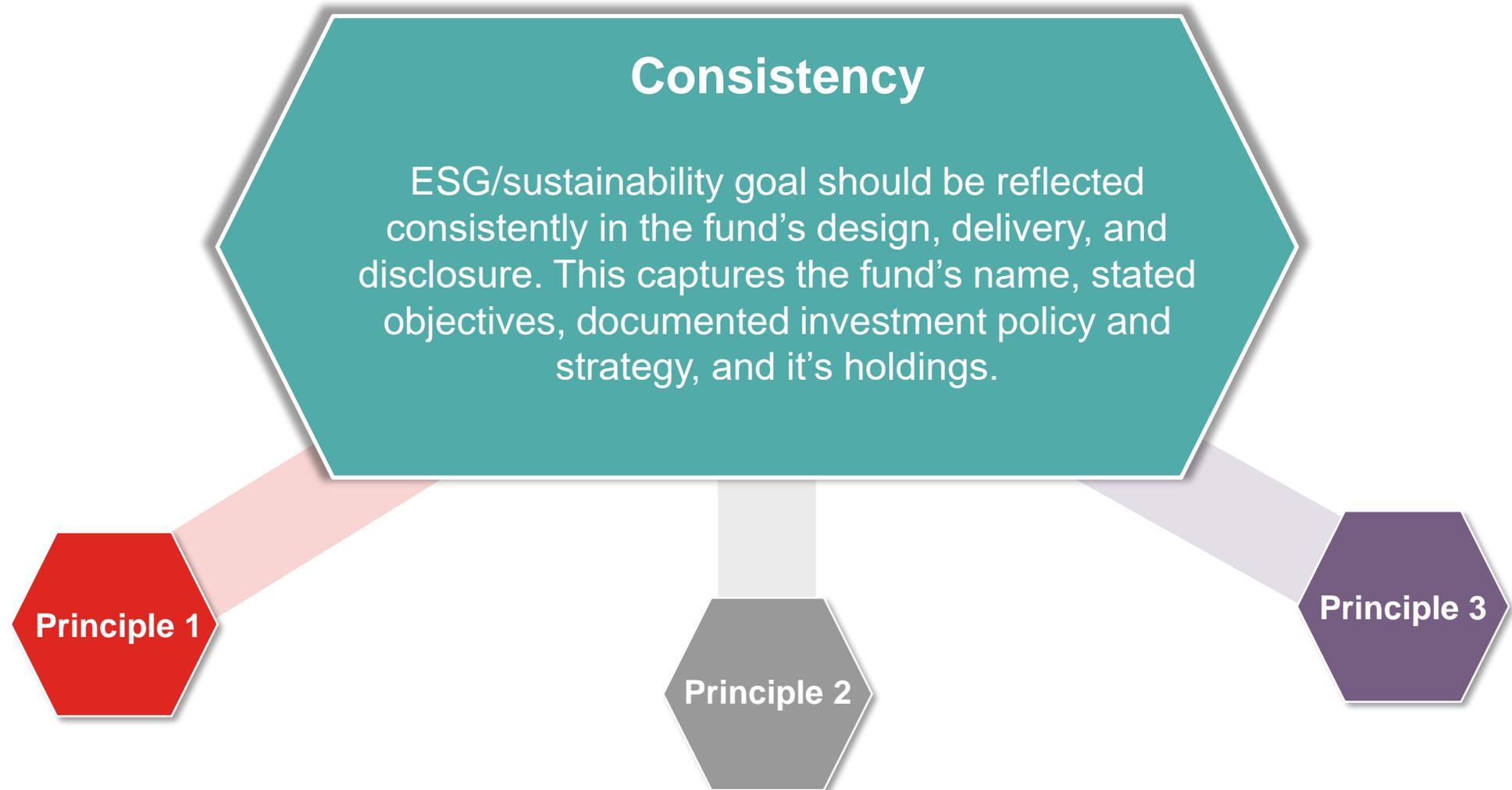
Why have they been introduced?

Help consumers to understand the basis on which sustainability claims are being made, increase transparency, and reduce the risk of consumers buying products that do not meet their needs.

Who do they apply to?

FCA authorised funds that pursues a responsible or sustainable investment strategy and claims to pursue sustainability characteristics, themes or outcomes.

Overarching guiding principle



Supporting principles

2 Principle 2: the delivery of ESG investment funds and ongoing monitoring of holdings.

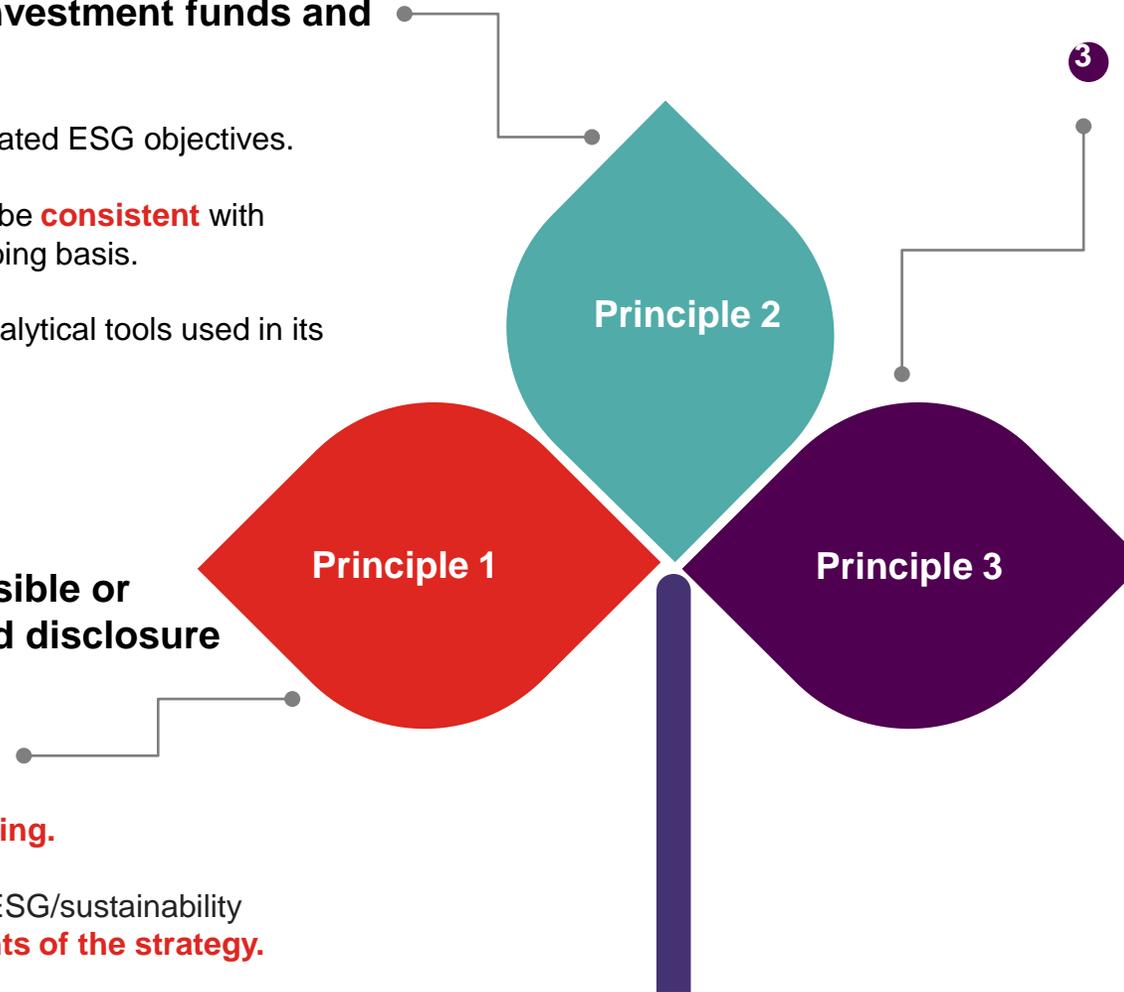
- **Appropriate resources** to pursue the stated ESG objectives.
- Implementation and investments should be **consistent** with ESG/sustainability objectives on an ongoing basis.
- **Monitoring** of the research, data and analytical tools used in its investment process.

1 Principle 1: the design of responsible or sustainable investment funds and disclosure of key design elements in fund documentation.

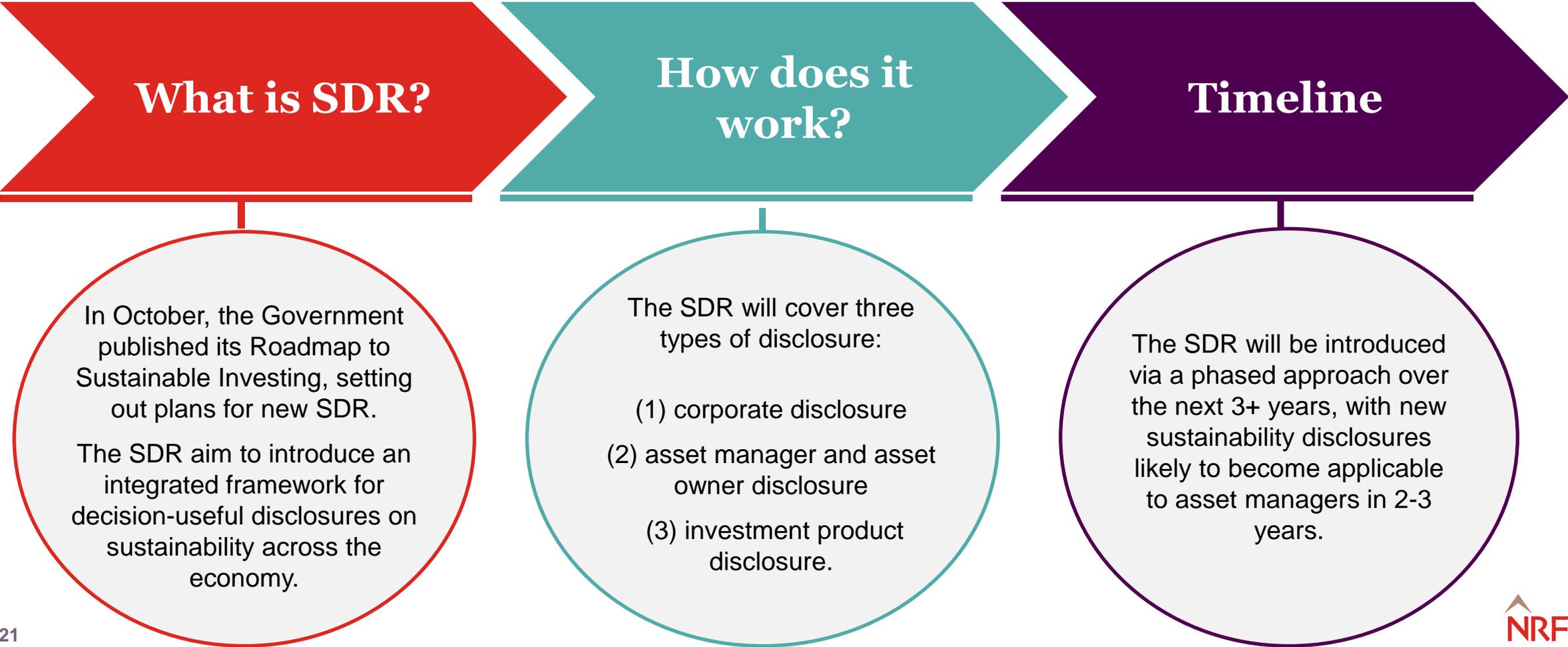
- References to ESG **must not be misleading**.
- Investment strategy of funds that pursue ESG/sustainability characteristics should include **key elements of the strategy**.
- AFMs are expected to have an **effective stewardship** approach.

3 Principle 3: pre-contractual and ongoing periodic disclosures of ESG investment funds should be easily available to consumers and contain information that helps them make investment decisions.

- ESG information should be **easily available** and use **clear language**.
- Periodic disclosures should include **evaluation** against stated ESG/sustainability characteristics, themes, or outcomes.
- **Key performance indicators**.
- Reporting should include **examples** of actions taken to support the aims of the fund.



Sustainability Disclosure Requirements (SDR)



Entity-level labels

In order to use a 'Sustainable or 'Responsible' product label, the entity must meet certain entry-level criteria on ESG integration.

Disclosures

The FCA will introduce two layers of disclosure, which will support the sustainable product labels:

- **Consumer-facing** product-level disclosures to provide standardised information on the product's key sustainability attributes for consumers.
- **Detailed** disclosures to be made at entity-level and product-level, providing more granular information for institutional investors.

FCA Discussion Paper 21/4 on Sustainability Disclosure Requirements (SDR) and investment labels



Product-level labels

Sustainable – Products that pursue specific sustainability characteristics alongside delivering a financial return. Three types of product:

1. Impact
2. Aligned
3. Transitioning

Responsible – Products that consider the impact of material sustainability factors on financial risk and return.

Not promoted as sustainable – Products that do not integrate sustainability risks into investment decisions and have no specific sustainability goals.





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Panel discussion

The rise of ESG: Challenges and opportunities



Tom Blathwayt,
Head Of
Sustainability,
Brewin Dolphin



Maximilian Meyer,
VP, ESG Solutions,
JPMorgan



Marta Rodriguez,
Head of ESG Product,
M&G Investments



Sam Tripuraneni,
Director, **BlackRock**
Sustainable Investing



Investing with Purpose

Jill Jackson
CEO The Big Exchange

www.bigexchange.com



THE LANDSCAPE

 **GFANZ**
Glasgow Financial Alliance for Net Zero



Organisations that represent £130trn of capital, all making commitments to hitting net zero by 2050.

 **MMW**
Make My Money Matter



Calling on individuals, organisations, the government and industry to take the necessary action to make pensions work for the future of our society and planet.

 **TISA**



Working with government, regulators and consumers to establish a framework that allows consumers to review the sustainability of their investments in an objective and comparable way.

 **tumelo** + 



Bringing Investing to Life – business partnerships that give consumers transparency of where their money is invested and giving them a voice on issues that matter to them.

This activity is set against a backdrop of increased scrutiny from government and regulators around the world on sustainable financial products.

EU Sustainable Finance Disclosure – Requires funds to be classified as either Article 8 or 9.

FCA – It is expected that in the UK, the FCA will introduce new sustainability labelling requirements in 2022, with climate disclosures also likely.

Pension Scheme Act 2021 – Climate Change Governance and Reporting.

Greenwashing probes prompt panic among ESG funds: ‘There’s a big reputational risk’

Only 3 in 10 major UK pension schemes have credible net-zero plans

“A fund’s ESG/sustainability focus should be reflected consistently in its design, delivery and disclosure”

1

- September 2021 data confirmed total fund inflows in the UK were £2.3bn, with £1.6bn of this in responsible or sustainable funds.
- Responsible investment funds under management stood at £85bn at end September 2021, of a total of the £1.5trn funds under management. This is only a 5.5% share, which has grown from 3.9% at the end of September 2020.

2

- At end of July 2021, Morningstar data confirmed that sustainable funds were in inflow, while non sustainable funds were in outflow.
- Data shows that this is both new money being allocated to sustainable funds, alongside reallocation from non sustainable funds.
- However, the data also showed that in Q2 the level of inflows into sustainable funds had slowed slightly from Q1.

CUSTOMERS WANT SUSTAINABLE PRODUCTS AND SERVICES

52%

Describe the need to introduce new sustainable finance products to the market as urgent.

53%

Said they would use sustainable finance products if they were more accessible.

60+

Age group cares more about all areas of sustainability than any other age group.

CUSTOMERS WANT TO UNDERSTAND

58%

Don't think financial institutions do enough to educate existing customers on sustainable finance products.

41%

Are under the impression sustainable finance products are less effective than non sustainable products.

48%

Don't know how financial products can help them live more sustainably.

CUSTOMERS WANT AUTHENTICITY

17%

Think financial institutions do well at contributing positively to the environment, social causes and conducting themselves responsibly.

63%

Think financial institutions could build more loyalty by offering more sustainable options.

60%

Think financial institutions could increase brand value by offering more sustainable options.

INVESTING WITH PURPOSE - FOR EVERYONE

Access

Remove barriers – make it easy for people to access sustainable funds.

Access must be based on being inclusive, with a focus on removing jargon.

Customer Experience – The bar is high in terms of user experience.

Support

Information – intuitive, educational content on products and services.

Compliment technology with human capital.

Transparency – everyone should be able to easily find out what their money is funding.

Choice

Sustainable v's 'Traditional' – Are sustainable products positioned as an alternative?

Themes – How can customers filter in line with their own values.

Financial Return & Risk – Clarity on the correlation between these factors and sustainability.



Panel discussion

ESG in the DC market



Caroline Escott,
Trustee Director,
Standard Life
Master Trust



Veronica Humble,
Head of DC
Investment Strategy,
Legal & General
Investment
Management



Tim Orton, Managing
Director, Investment
Solutions, **Aegon**



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